NOVA CORPORATION OF ALBERTA

1992 ANNUAL REPORT

Adding Value to Energy

NOVA

On the Cover

NOVA adds value to energy through producing, marketing and transporting natural gas and upgrading natural gas and other hydrocarbons into chemicals and plastics.

Above:
NOVA has been a pioneer in developing and using automated pipeline welding systems. Here, a continuous wire-feed system is used on a length of 48-inch-diameter pipe near Brooks, Alberta. Mobile sheds travel the length of the pipeline, allowing welders to use this sophisticated equipment in a controlled environment. Charlie Muylaert is the welder and Randy Hesselink is the welder's helper.

Below:
NOVA owns a unique refining and petrochemical research company at Pasadena, Texas, called Chemical Research and Licensing Company (CR&L). CR&L exploits its world-leading expertise in catalytic distillation. The best-known applications of this technology are in the manufacture of methyl tertiary butyl ether (MTBE) and tertiary amyl methyl ether (TAME). Both are high-octane oxygenated gasoline additives. Demand for these products is increasing rapidly due to oxygenated fuel requirements. Michael King, manager, Analytical Development, is pictured.

Annual Meeting

NOVA Corporation of Alberta's annual meeting will be held on Friday, April 23, 1993, at 10:30 a.m. in the Calgary Convention Centre, 120 Ninth Avenue S.E., Calgary, Alberta.

Contents

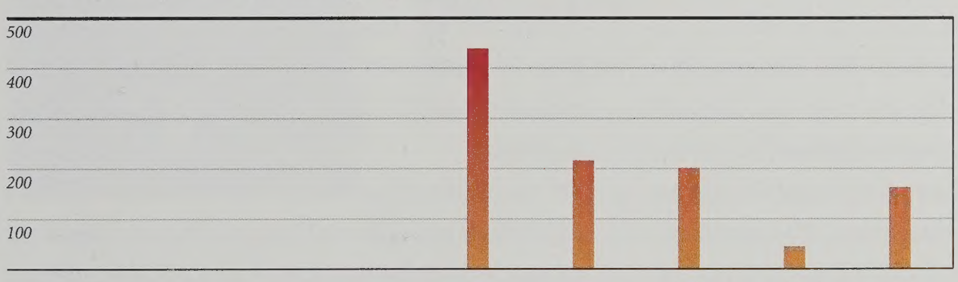
Financial Highlights

Year Ended December 31 (millions of dollars, except for per share data and ratios)	**1992**	1991	1990
Income			
Revenue	**$ 3,027**	$ 3,074	$ 3,980
Net income from continuing operations			
before restructuring charge	**$ 164**	$ 46	$ 203
Restructuring charge (after tax)	**$ –**	$ (675)	$ –
Discontinued operation – Husky Oil Ltd.	**$ –**	$ (294)	$ (18)
Net income (loss)	**$ 164**	$ (923)	$ 185
Net income (loss) per common share			
Basic	**$ 0.39**	$ (2.99)	$ 0.56
Fully diluted	**$ 0.39**	$ (2.99)	$ 0.55
Cash flow			
Funds from continuing operations	**$ 451**	$ 223	$ 509
Capital expenditures			
Pipelines	**$ 451**	$ 555	$ 717
Chemicals	**$ 79**	$ 111	$ 216
Dividends paid per common share	**$ 0.24**	$ 0.45	$ 0.52
Financial position			
Assets of continuing operations	**$ 6,189**	$ 5,802	$ 6,054
Common equity per share[1]	**$ 5.17**	$ 4.45	$ 7.54
Long-term debt: equity ratio	**1.3:1**	2.1:1	1.3:1

(1) Includes convertible debentures and warrants.

All dollar figures used in this annual report are quoted in Canadian dollars unless indicated otherwise.

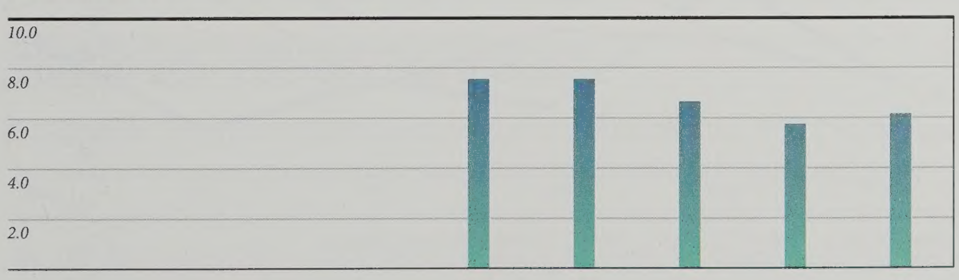
Net Income from Continuing Operations



	1988	1989	1990	1991*	1992
(millions of dollars)	441	218	203	46	164

**before restructuring charge*

Total Assets



	1988	1989	1990	1991	1992
(billions of dollars)	7.6	7.6	6.7	5.8	6.2

CORPORATE HIGHLIGHTS

A turnaround in financial performance despite weak markets.

► NOVA's shareholders earned a 24 per cent total return on their investment for the year ended December 31, 1992. This was the second-best total return among the TSE 300. The total return over the past five years is shown below.

► Net income was increased to $164 million, compared with $46 million (from continuing operations before restructuring charges) in 1991. Restructuring charges and losses on the sale of assets contributed to 1991's net loss of $923 million.

► NOVA strengthened its balance sheet by raising some $560 million in new common equity. Canada's two principal bond rating agencies raised NOVA's credit rating to A (Low). Two leading U.S. debt rating agencies assigned comparable ratings for NOVA's credit.

► Funds from continuing operations rose to $451 million in 1992, from $223 million in 1991.

► The Alberta Gas Transmission Division (AGTD) had its sixth successive year of record natural gas shipments. Field receipts totalled 3.4 trillion cubic feet in 1992, up 13.1 per cent over 1991.

► NOVA has invested some $1.7 billion in AGTD's pipeline system since 1990. Despite this significant investment, the average unit cost of transporting gas on the system declined in 1992.

► Despite added rate base, 1992 pipeline earnings were only slightly better than 1991 earnings, reflecting a reduction in AGTD's regulated rate of return. Regulators set AGTD's 1992 total rate of return at 10.95 per cent, including a 12.5 per cent after-tax return on a deemed common equity component of 32 per cent. The reduction in AGTD's rate of return reflected lower long-term interest rates.

► The chemicals business surpassed its goal of achieving a cash flow breakeven position, generating net cash flow of approximately $80 million in 1992 (after interest and capital expenditures).

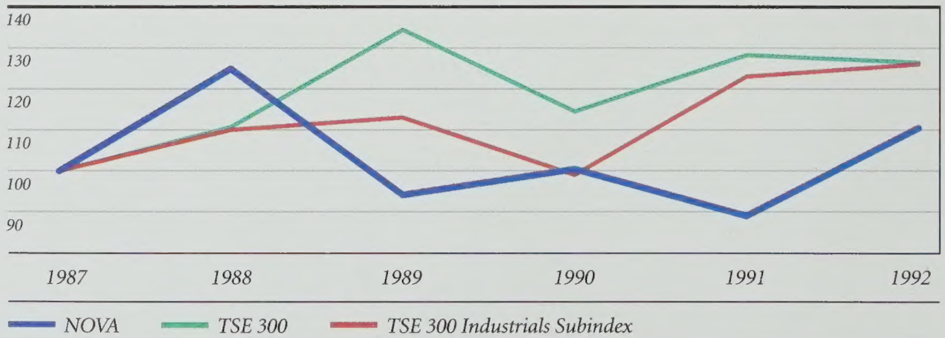
► Earnings from chemicals operations were improved by $110 million over 1991. Sharply improved earnings and cash flow were achieved despite weak market conditions.

► Novacorp International Consulting Inc. completed two important initiatives in 1992. A joint venture technical services company was created with Petroliam Nasional Berhad (Petronas), the national oil company of Malaysia. In Argentina, Novacorp acquired a 16.2 per cent interest in Gasinvest S.A., a company which owns 70 per cent of that country's northern natural gas pipeline system. A subsidiary of Novacorp will be the technical operator of the pipeline.

► Pan-Alberta Gas Ltd. marketed a record volume of 466 billion cubic feet of natural gas. Pan-Alberta met every commitment to its customers in full during tight supply periods late in 1992.

► Foothills Pipe Lines Ltd. moved a record 535 billion cubic feet of gas in 1992, representing approximately 26 per cent of all Canadian natural gas exported to the United States.

Total Return Performance*



**Total Return = Appreciation in share value, assuming reinvestment of dividends*

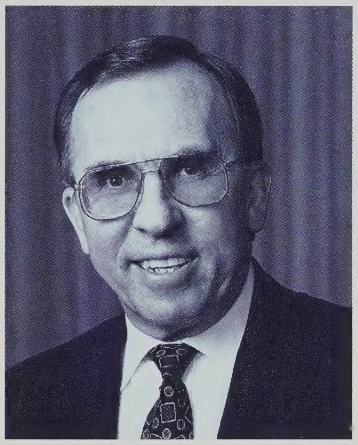
Assumes $100 invested on 12/31/1987 in NOVA Common Stock, TSE 300 and TSE 300 Industrials Subindex

REPORT TO SHAREHOLDERS

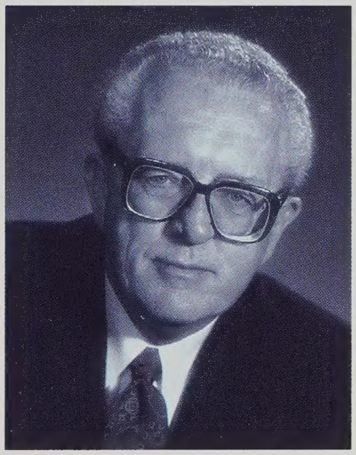
Nineteen-ninety-two was a year of substantial progress for NOVA on almost every front.

Customer Focus

We took significant initiatives to develop a better understanding of our customers. During 1993, NOVA will be changing to improve customer service and make the company more responsive to its customers' needs. NOVA's goal is simple: to consistently exceed its customers' expectations.



Richard F. Haskayne
Chairman of
the Board



J.E. (Ted) Newall
President and
Chief Executive
Officer

People Leadership

A commitment to pace-setting 'people leadership' is taking root at NOVA. People leadership means building the leadership abilities of our employees, and giving them the freedom, the tools and the support to do their jobs exceptionally well. In 1992, we took steps to move decision-making responsibility and authority closer to the customer, at the level where our people meet NOVA's daily challenges face-to-face.

NOVA's goal is simple: to consistently exceed its customers' expectations.

Productivity

Major productivity gains were recorded in almost every area of NOVA.

Most head office functions have been downsized and decentralized into the company's business divisions. This was implemented quickly and smoothly, reducing costs and improving productivity. This initiative also responds to the preference of our gas shippers, who asked that the Alberta Gas Transmission Division (AGTD) be a largely self-contained and freestanding business unit.

The separate petrochemicals and plastics divisions were merged in 1992. Chemicals production was rationalized. Each business area has been challenged to meet or beat its competition in cost-effectiveness.

We will deliver low-cost excellence throughout NOVA.

Alberta Gas Transmission Division

In response to shipper requirements for new pipeline capacity, AGTD continued to expand its system, constructing more than $450 million of additional facilities in 1992. In total, $1.7 billion of new facilities has been added to the system over the last three years. Since 1989, system capacity has been increased by 26 per cent.

Despite the large increase in investment, the average unit cost of transporting gas on AGTD's system declined in 1992.

Novacor Chemicals Ltd.

The chemicals business delivered positive earnings for the year – and positive cash flow after interest expense and capital expenditures. This substantial improvement was accomplished despite continued depressed markets.

Four factors contributed to the chemicals turnaround. We drove down internal costs and expenses. Our production facilities boosted operating rates. New equity helped us lower corporate debt and associated interest expense. A lower-valued Canadian dollar improved our competitive position in export markets.

NOVA's chemicals businesses are now back on a growth track, with a series of low-capital-cost expansion projects under way. General market conditions are expected to improve gradually during the latter part of 1993 and in 1994.

Our objective is to continue to deliver well-above-average returns for our shareholders.

Strengthening NOVA's Balance Sheet

Late in 1991, NOVA strengthened its balance sheet through the divestment of its interest in Husky Oil Ltd. We also wrote down the value of certain chemicals assets. We followed these actions with a cost-containment program in 1992. Taken together, these steps increased investor confidence in NOVA, and attracted greater interest in NOVA equity.

This interest supported equity issues in February and April, 1992, which raised some $560 million of new capital. Combined with the proceeds of the sale of our interest in Husky, this infusion of cash delivered a non-cost-of-service balance sheet boasting 66 per cent equity – one of the stronger balance sheets in the chemicals industry.

A Commitment to our Shareholders

Although we made substantial progress in 1992, we are not satisfied with our financial results. We expect to deliver further gains in 1993 and again in 1994 – by which time we expect our results to be at much more satisfactory levels.

The stock market recognized our improved performance, as NOVA's equity had one of the best total returns of all stocks in the TSE 300 in 1992. Our objective is to continue to deliver well-above-average returns for our shareholders.

To support our commitment to achieving superior shareholder value, each senior officer is required to sustain a significant personal investment in NOVA common shares – without financial assistance from the company. In addition, 70 per cent of employees eligible under NOVA's Employee Share Purchase Plan own common shares in the company.

Business Outlook

Our Alberta pipeline system will set new volume records again in 1993 – for the seventh successive year. The improvement in natural gas markets seen in 1992 will continue through 1993. This improvement will drive continued, steady expansion of AGTD's system for a number of years to come – at a pace comparable to 1992 system growth. The higher levels of capital employed are expected to result in increased pipeline earnings in 1993.

In 1992, the Public Utilities Board of Alberta (PUB) conducted a public hearing to review AGTD's capital structure and its rate of return. The reduction in long-term interest rates was one of the factors which led the PUB to reduce AGTD's 1992 return on equity to 12.5 per cent, from the rate of 13.75 per cent which applied in 1991. The PUB approved a capital structure and rates of return that it felt would be consistent with an 'A' credit rating for AGTD.

The Canadian Association of Petroleum Producers has initiated a similar review of AGTD's rate of return and its capital structure for 1993. The results of the review, expected in the fall of 1993, will apply to the full year.

Nineteen-ninety-three will be a third straight year of very difficult market conditions for chemicals and plastics. However, we expect gradually improving demand in 1993, leading to much improved business results in 1994. Internal improvements have restored this business to positive earnings and net cash flow.

A Special Honor

NOVA takes pride in its efforts to be a model corporate citizen. Many of our programs have been singled out for recognition. However, we do take special pleasure in being named "Employer of the Year" for 1992 by Native Employment Services Association – Alberta. The award recognizes NOVA's leadership in ensuring significant native participation in our pipeline construction projects in Alberta.

Employees' Contributions

The excellent safety record and operational performance delivered by each of NOVA's business units is clear evidence of the high quality of our employees. Everywhere in NOVA in 1992, our employees executed the company's key initiatives with excellence and great vigor. Their dedication, energy and enthusiasm continues to add much value to NOVA.

Respectfully submitted on behalf of the board of directors,

R. F. Haskayne

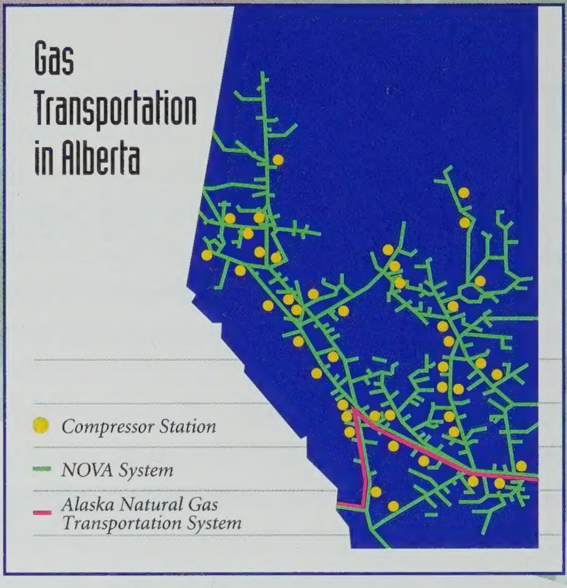
Richard F. Haskayne
Chairman of the Board

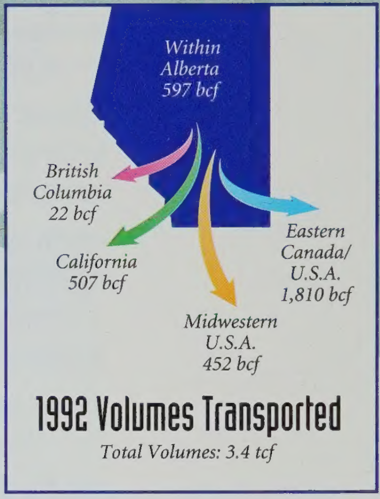
J.E. Newall

J.E. Newall
President and Chief Executive Officer

February 26, 1993

CORPORATE PROFILE





NOVA Corporation of Alberta is a widely held company operating internationally from headquarters in Calgary, Alberta, Canada.

The company was incorporated in 1954 by a Special Act of the Legislative Assembly of the Province of Alberta.

NOVA adds value to energy through producing, marketing and transporting natural gas and upgrading natural gas and other hydrocarbons into chemicals and plastics.

In 1992, NOVA generated $3 billion in revenue and $164 million in net income. Assets at the end of 1992 totalled $6.2 billion.

Shares trade on the Toronto, Montréal, Alberta, New York and London stock exchanges, and on Swiss stock exchanges in Geneva, Zurich and Basle.

NOVA employs over 6,000 people.

Pipelines and Related Businesses

NOVA's pipelines and related businesses include:
- *Alberta Gas Transmission Division, 100% owned*
- *Novacorp International Consulting Inc., 100% owned*
- *Foothills Pipe Lines Ltd., 50% owned*
- *Pan-Alberta Gas Ltd., 50.005% owned*
- *TQM Pipeline Partnership, 50% owned*

Alberta Gas Transmission Division (AGTD)

AGTD's pipeline system is the primary transportation system through which natural gas is collected for use in Alberta and delivered to border points for shipment outside the province. Representing assets of more than $3 billion, NOVA's Alberta pipeline system is one of the largest, most technologically advanced in the world.

Each year, the AGTD system carries more than 10% of natural gas produced annually in North America, including about 75% of marketed Canadian gas production. In 1992, over $450 million was invested in facilities.

AGTD System Statistics:
- *11,400 miles of pipeline, 2 to 48 inches in diameter*
- *44 compressor stations*
- *960 major receipt and delivery points.*

Total deliveries for 1992 were 3.4 tcf – enough natural gas to heat one million homes for the next 29 years.

Natural gas destined for central Canada and the eastern United States (Empress border station): 1.8 tcf in 1992 compared with 1.5 tcf in 1991.

Natural gas destined for the western United States (ABC border station): 507 bcf in 1992 compared with 515 bcf in 1991.

Natural gas destined for the midwestern United States (McNeill border station): 452 bcf in 1992 compared with 383 bcf in 1991.

Natural gas used within Alberta was 597 bcf in 1992 compared with 603 bcf in 1991.

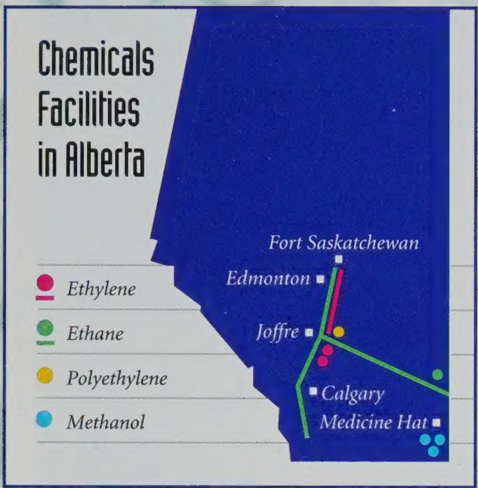
Novacorp International Consulting Inc.

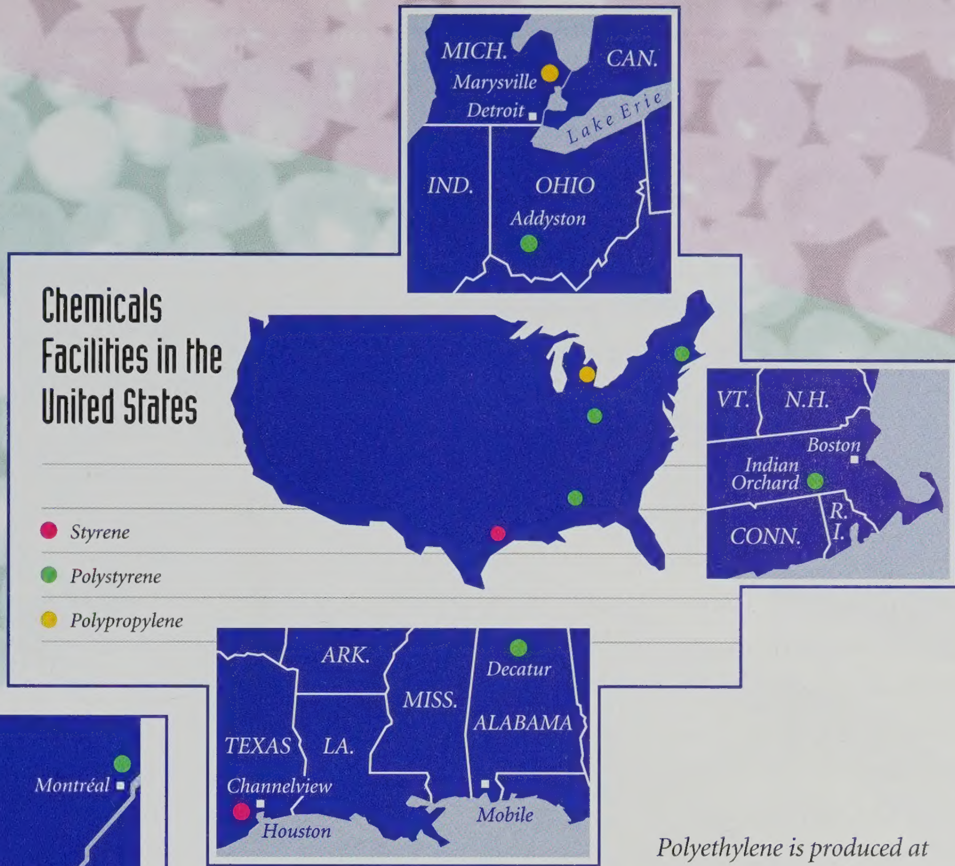
Novacorp engages in international pipeline consulting and equity investments in foreign pipelines. Novacorp also owns and operates special-purpose pipelines in Alberta.

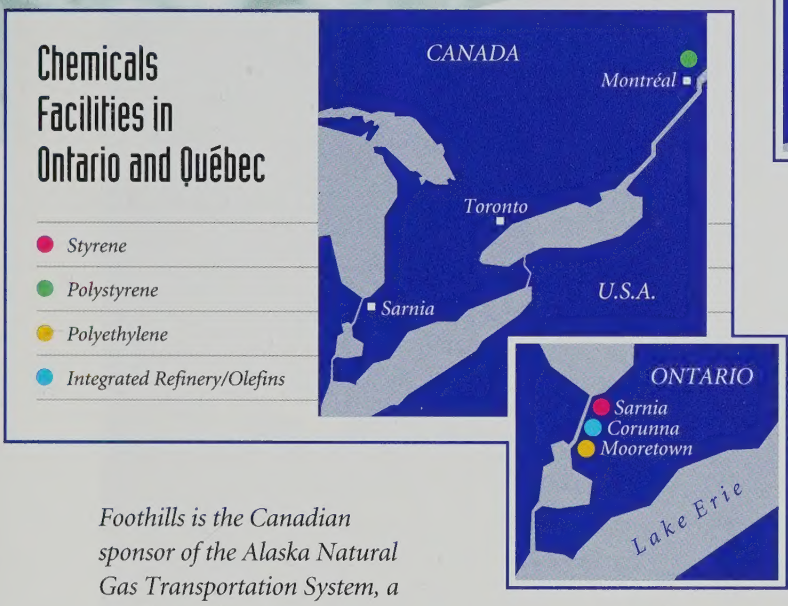
Novacorp recently formed a joint venture technical services company with the Malaysian national oil company, Petroliam Nasional Berhad. A subsidiary of Novacorp owns an interest in, and is the technical operator of, a natural gas pipeline in northern Argentina.

Foothills Pipe Lines Ltd.

In 1992, Foothills transported 535 bcf of gas to the United States, which ranks the company as one of Canada's largest carriers of gas for export. Foothills System Statistics:
- *528 miles of pipeline*
- *7 compressor stations*
- *4 meter stations and one decompression/recompression facility.*







Foothills is the Canadian sponsor of the Alaska Natural Gas Transportation System, a pipeline project to transport Alaskan and northern Canadian gas to southern markets when economic conditions warrant.

Pan-Alberta Gas Ltd.
Pan-Alberta is a major marketer of Alberta natural gas to the United States, with about 20% of total Canadian exports under contract. Pan-Alberta marketed 466 bcf of gas in 1992.

TQM Pipeline Partnership
TQM transports natural gas in the province of Québec.
TQM System Statistics:
- *215 miles of pipeline*
- *13 meter stations*
- *10 sales taps*

Chemicals

NOVA conducts its chemicals businesses through Novacor Chemicals Ltd., from headquarters at Calgary, Alberta.

Ethylene, propylene, styrene and methanol are the major petrochemicals produced by Novacor. These products are the main building blocks from which Novacor and other companies make plastics resins and other products.

In 1992, Novacor produced 3.2 billion pounds of ethylene at Joffre, Alberta, and 1.4 billion pounds at Corunna, Ontario. The Joffre ethylene facility is believed to be the lowest-cost producer in North America. Novacor produces just over 10% of North America's ethylene.

The Corunna site is a major producer of olefins, aromatics and fuel products serving several derivative plants in the Sarnia area.

Novacor's styrene production comes from its plant at Sarnia, Ontario, and through an investment in a plant at Channelview, Texas.

Methanol is manufactured at three plants at Medicine Hat, Alberta. Novacor is the second largest producer of methanol in North America.

Polyethylene, polystyrene and polypropylene are the three major plastics resins produced by Novacor. Primary end-uses for these resins include rigid and flexible packaging, industrial containers of all types, multipurpose bags and a wide variety of consumer and industrial goods.

Polyethylene is produced at Joffre, Alberta, and Mooretown, Ontario. Novacor produces 6% of North America's polyethylene.

Polystyrene is produced at Novacor's facilities at Decatur, Alabama; Indian Orchard, Massachusetts; Montréal, Québec and at a third-party facility at Addyston, Ohio. Novacor is the third-largest producer of solid polystyrene in North America.

High-performance polypropylene is produced at Marysville, Michigan.

Major markets for Novacor's products include the United States, Canada, the Pacific Rim and Europe.

Novalta Resources Inc.
Novalta is an Alberta-based natural gas production company. Novalta's primary business is to explore for, develop, produce and market natural gas. Novalta produced 26 bcf of natural gas in 1992 and has proven reserves of 334 bcf.

AGTD AND CUSTOMER SERVICE

NOVA's Alberta Gas Transmission Division (AGTD) occupies a key position in the province's natural gas industry. The AGTD pipeline network is the main system for moving natural gas from Alberta's processing facilities to delivery points within the province and to border stations for export.

The division's long-term success depends on meeting and exceeding the expectations of its many customers. These customers include gas marketers, natural gas producers, brokers, industrial gas users, gas distribution utilities, and connected pipelines.

Since the deregulation of natural gas marketing in Canada in 1986, the number of AGTD customers and contracts has increased substantially. As of December 31, 1992, the division had 235 customers and 377 contracts.

The division has embarked on a program to serve its customers better. Here are several examples of initiatives AGTD has undertaken or has planned:

► **Customer Survey:** As the first step, the division surveyed its customers in late 1992. Customers were asked about their needs, their expectations and their current levels of satisfaction. Recalling the division's roots as a utility-style company, it wasn't a total surprise that many customers said they wanted a less bureaucratic, more responsive and more cost-effective AGTD. The division has begun making changes recommended by its customers, and will be responsive to continuing customer feedback.

► **AGTD Restructuring:** The division has begun a major effort to structure itself in a way that will enhance customer service and responsiveness. In the division's new design, those positions that directly interface with and serve the customer will assume a much stronger role.

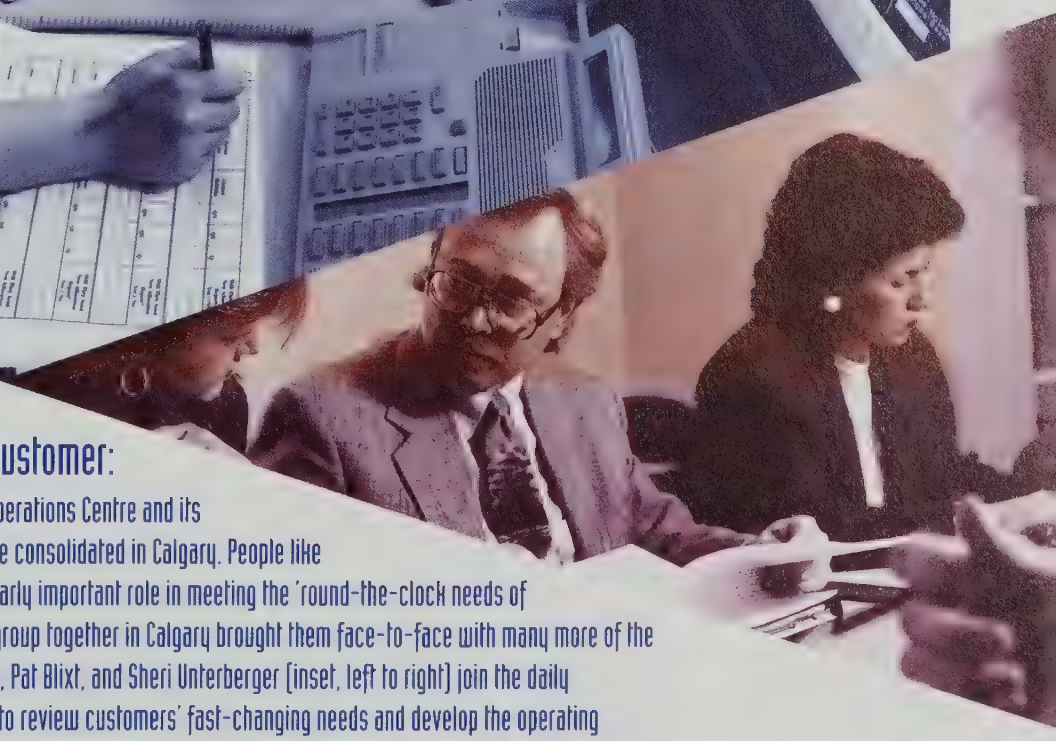
► **Streamlined Decision-making:** Decision-making responsibility and authority is being shifted to the level of the organization which is closest to the customer. The division can be more responsive if business decisions are made by the front-line staff who best understand the customers' needs and expectations.

► **Getting Measurably Better:** In 1993, AGTD will commence a broad study of gas transmission businesses across North America. The study will determine the best business practices and processes in areas such as transportation tariffs, system reliability, facility costs and overhead costs. After identifying the best, most effective practices, AGTD will work to implement them – or to pioneer a new pace-setting standard.

► **Balancing Act:** Demand for Alberta natural gas has been growing steadily. To help AGTD be more responsive to customers in times of high demand, a gas industry committee prompted the introduction of daily supply/demand balancing. The new procedures, introduced on December 1, 1992, use natural gas allocations from producers to balance each customer's supply and demand on a daily basis.

► **Bigger Can Be Better:** Dramatic growth in the capacity of AGTD's system over the last six years has made tremendous economies of scale possible. In 1992, the division installed its first 48-inch-diameter pipe near its Empress station at the Alberta-Saskatchewan border. Installing large-diameter pipe will allow AGTD to carry expected increases in future gas volumes at a lower long-term cost than would be possible using smaller-diameter pipe. By using 48-inch pipe, the division saved its customers more than $5 million in total capital cost. The savings on the cumulative cost-of-service (over the life of that length of pipeline) will be more than $15 million.

Since 1954, the Alberta Gas Transmission Division has successfully met many challenges: challenges of terrain, of technology, of changing business and regulatory conditions. Today's challenge is competitiveness. The division wants its customers to be convinced that AGTD is a key contributor to their ongoing competitiveness. That's how AGTD will define success.



Getting Closer to the Customer:

In August 1992, AGTD's Pipeline Operations Centre and its gas control and supply staff were consolidated in Calgary. People like Su Klimack (above) play a singularly important role in meeting the 'round-the-clock needs of AGTD's customers. Bringing this group together in Calgary brought them face-to-face with many more of the division's customers. Zenia Koop, Pat Blixt, and Sheri Unterberger (inset, left to right) join the daily transportation planning meeting to review customers' fast-changing needs and develop the operating strategy for the pipeline. This new organization is also more cost-effective.

AGTD HIGHLIGHTS

► The Alberta Gas Transmission Division (AGTD) recorded one million work hours without a single lost-time injury between April 1 and June 2, 1992. This milestone is rarely achieved in the gas transportation industry.

► Summer deliveries into the AGTD pipeline system were up significantly versus historic levels. The system operated at 90 per cent capacity over the summer months, compared with usual summer levels of 65 to 80 per cent capacity.

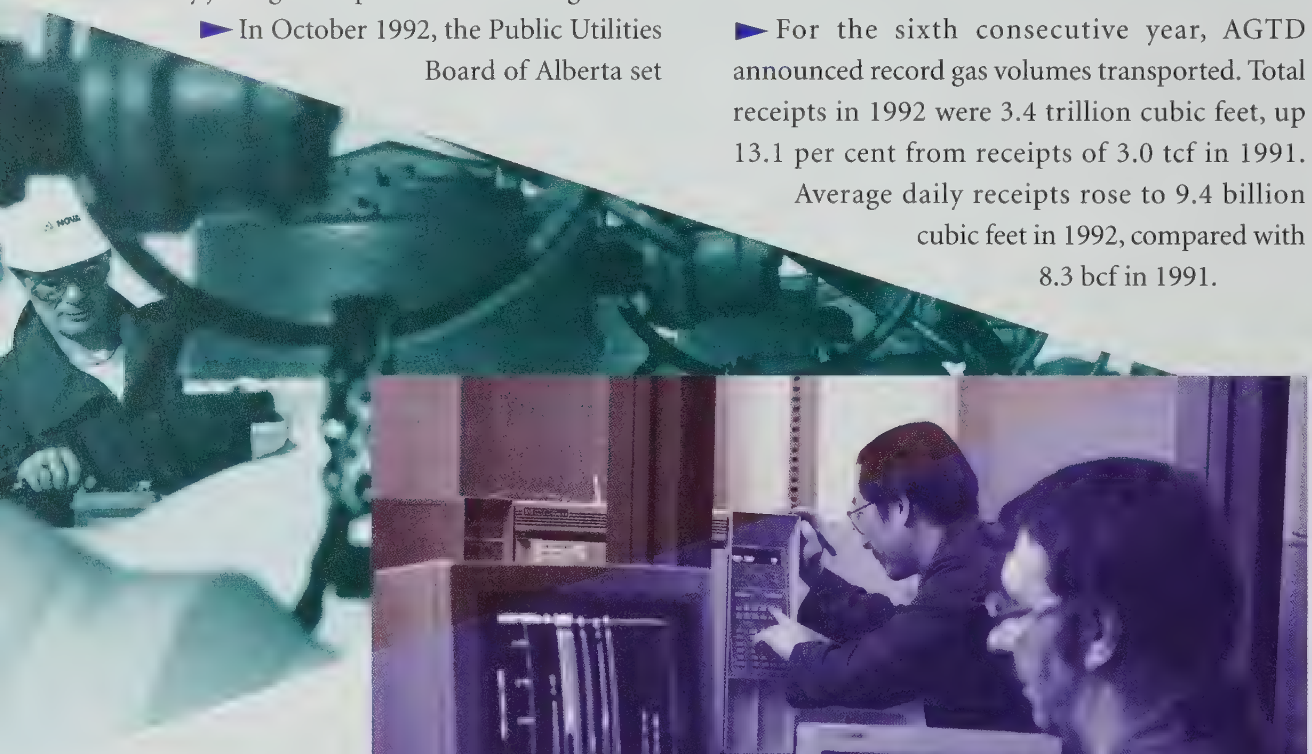
► Capital spending in 1992 totalled more than $450 million. This included 465 miles of pipeline and new compressor units totalling 88 million watts of power. One of the largest single-site additions was at the Hussar compressor station, where three new 14-MW compressor units using high-efficiency jet engines replaced 1960s-vintage units.

► In October 1992, the Public Utilities Board of Alberta set AGTD's 1992 total rate of return at 10.95 per cent, including a 12.5 per cent after-tax return on a deemed common equity component of 32 per cent. AGTD believes these rates will allow it to carry forward its pipeline expansion program, which is expected to average $500 million per year through 1995.

► Alberta's Energy Resources Conservation Board published its *Review of the Operation of NOVA's Pipeline System.* The report summarized issues relating to AGTD's operating practices. These issues are currently being addressed by AGTD and its customers. The report is being studied by the Province of Alberta.

► Effective December 1, 1992, AGTD implemented a daily balancing of producer supply to customer demand.

► For the sixth consecutive year, AGTD announced record gas volumes transported. Total receipts in 1992 were 3.4 trillion cubic feet, up 13.1 per cent from receipts of 3.0 tcf in 1991. Average daily receipts rose to 9.4 billion cubic feet in 1992, compared with 8.3 bcf in 1991.



(Above) Dave Reniak monitors a valve at Empress, Alberta. Deliveries through AGTD's Empress border station were up 20.9 per cent over 1991. Empress carries gas destined for eastern markets.

Pat Wong (left) and Dwayne Davis determine the composition, relative density and heating value of a natural gas sample. AGTD's newly expanded Gas Analysis Laboratory in Edmonton, Alberta, can analyse more than 150 samples for AGTD's customers every day.

NOVACORP INTERNATIONAL HIGHLIGHTS

► Novacorp contributed $4 million to NOVA's net income in 1992, compared with 1991's contribution of $6 million.

► Novacorp formed a technical services company with the Malaysian national oil company, Petroliam Nasional Berhad (Petronas). The new company will provide project management and engineering services to the oil, gas and petrochemicals sectors in Malaysia and other parts of Asia. It begins with a large backlog of orders, and very good prospects.

► An alliance consisting of Novacorp, two leading private sector Argentine companies and Petronas (our Malaysian partner), created a joint venture which acquired a 70 per cent interest in Argentina's northern mainline pipeline. Novacorp's interest in this joint venture is 16.2 per cent. This $46 million investment is expected to be profitable in its first year. It will gain NOVA invaluable operating experience with its alliance partners in Argentina.

► In 1992, Novacorp was involved in several major pipeline consulting projects in China, Pakistan and the Ukraine.

Argentine Pipeline System

OTHER PIPELINE BUSINESSES HIGHLIGHTS

Foothills Pipe Lines Ltd.

► Foothills contributed $16 million to NOVA's net income in 1992, the same as 1991's contribution.

► Foothills spent approximately $65 million in 1992 with the addition of two new compressor stations and the expansion or upgrading of existing facilities.

► Canada's National Energy Board authorized the company to continue to recover costs related to the northern sections of the Alaska Natural Gas Transportation System through the year 2000. Foothills also concluded an agreement with the Canadian government to extend the company's pipeline easement in the Yukon Territory to at least the year 2012.

Pan-Alberta Gas Ltd.

► In 1992, Pan-Alberta contributed $2 million to NOVA's net income, the same as 1991's contribution.

► The company marketed record gas volumes of 466 billion cubic feet in 1992, up from 400 bcf in 1991.

TQM Pipeline Partnership

► In 1992, TQM contributed $5 million in net income, the same as 1991's contribution.

► Gas deliveries from TQM's pipeline system increased to 113 billion cubic feet, up from 107 bcf in 1991.

CHEMICALS HIGHLIGHTS

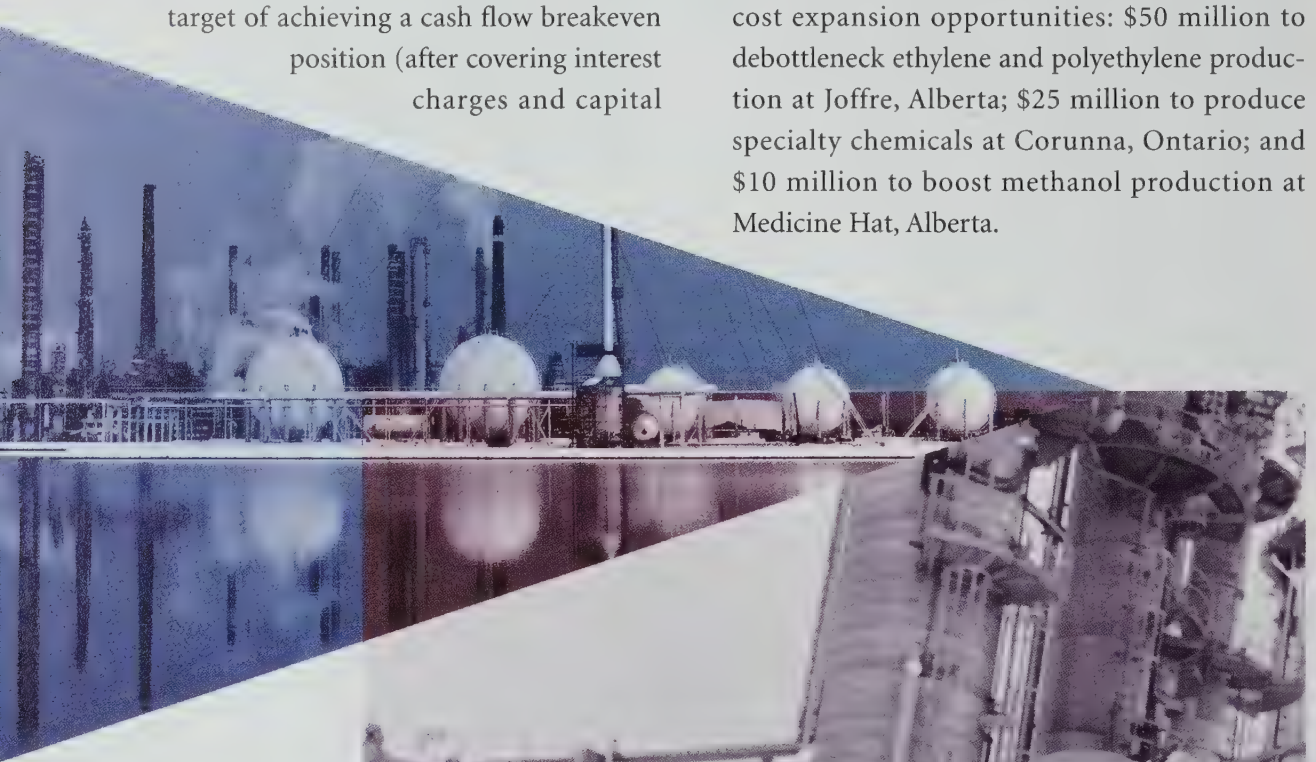
► The Corunna, Ontario, plant matched its previous safety record – two million hours without a lost-time injury – for the third time in its history. The Mooretown, Ontario, polyethylene plant has completed more than 2.5 million working hours without a single recordable injury.

► Between 1991 and 1992, the chemicals business improved its net income by $110 million – in a year in which average selling prices were lower than the year before.

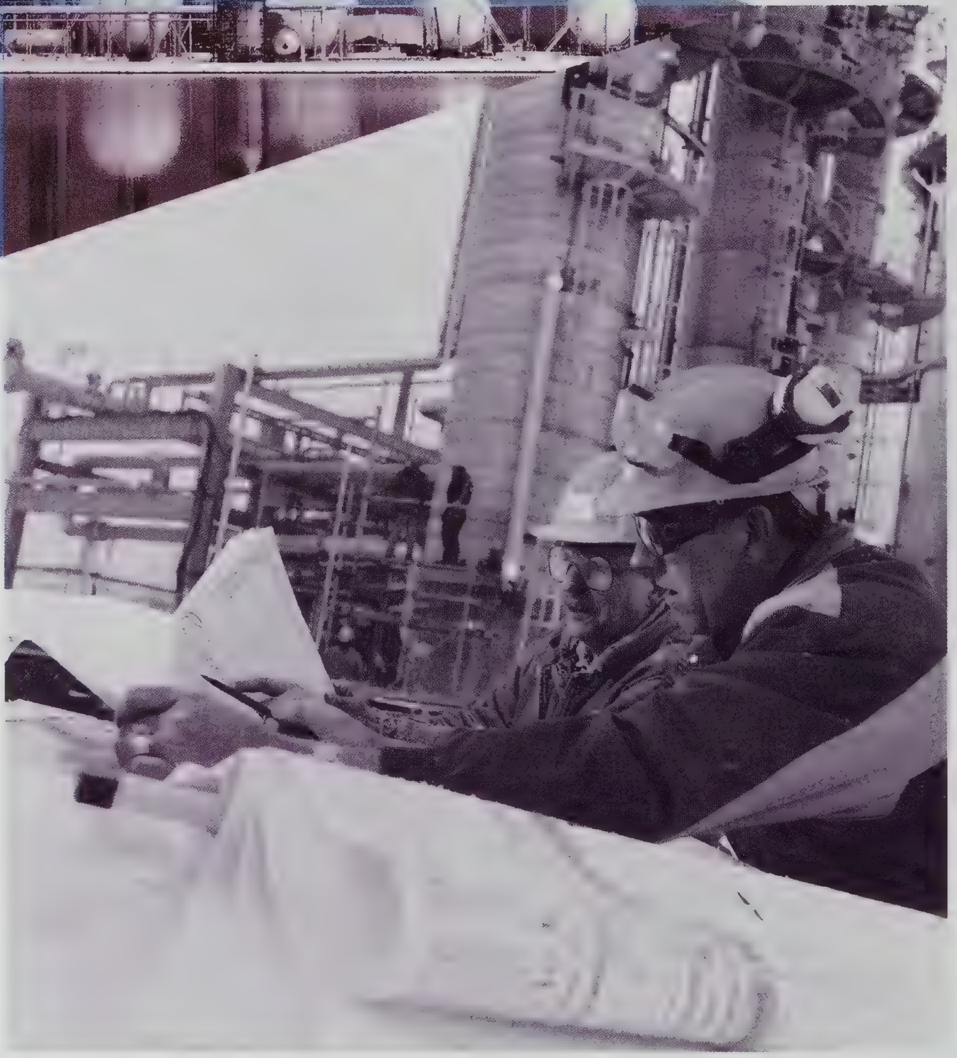
► The chemicals business well surpassed its target of achieving a cash flow breakeven position (after covering interest charges and capital expenditures). In fact, by year-end, chemicals had produced a net cash flow of approximately $80 million.

► Novacor completed a comprehensive benchmarking review of each of its businesses in 1992. This review led to new strategic directions for each business, ensuring that new capital investment is directed to reinforcing and growing Novacor's strongest businesses.

► In September 1992, Novacor announced it will invest $85 million in a number of low-capital-cost expansion opportunities: $50 million to debottleneck ethylene and polyethylene production at Joffre, Alberta; $25 million to produce specialty chemicals at Corunna, Ontario; and $10 million to boost methanol production at Medicine Hat, Alberta.



(Above) The Corunna, Ontario, plant is a major producer of olefins, aromatics and fuel products.



Dexter Bothwell (left) and Mike Geddes review plans for a plant addition to recover specialty chemicals from Novacor's Corunna, Ontario, facility. An investment of $25 million will enable Corunna to upgrade a byproduct stream into its more-valuable components.

Study Rates Joffre Among Continent's Best:

A 1992 industry benchmarking study found Novacor's Joffre, Alberta, facilities to be among North America's lowest-cost producers of ethylene and polyethylene. Joffre features one of the world's largest polyethylene pelletizer units. Lisa Kurasevich (above) takes readings below the hopper feeding polyethylene resin to this pelletizer. Dave Lemmon (inset, right) loads polyethylene for shipment to markets in China.

NOVACOR AND RESPONSIBLE CARE

Shareholders expect the companies they invest in to protect the environment and the health and safety of company employees and the public. NOVA's shareholders are assured of superior environment, health and safety (EHS) performance through the company's active involvement in the Responsible Care® program.

In essence, Responsible Care is a comprehensive EHS quality improvement program undertaken by members of the chemical industry. The program is built around the right of all industry stakeholders – including the public – to know the facts about risks posed by the industry's operations. Responsible Care also acknowledges that the chemical industry has a moral obligation to conduct its business in a safe, responsible manner.

Novacor Chemicals has adopted Responsible Care as its single, overarching EHS program.

Responsible Care is built around a set of guiding principles and six codes of practice. While codes of practice differ slightly in Canada and the United States, the scope and intent of the programs are the same. Several themes are consistent:

► **Accountability:** Producers of chemicals are responsible for their products' performance from 'cradle-to-grave', through research, product use, recycling and disposal.

► **Dialogue:** The industry relies on partnerships with suppliers, government, employees, industry counterparts, customers and shareholders, all of whom have a legitimate stake in the integrity of industry operations.

► **Teamwork:** Responsible Care calls for integrating the best efforts, experience and thinking inside and among member companies.

► **Continuous Improvement:** A commitment to Responsible Care is a commitment to the goal of reducing risk. The goal of zero risk may never be achieved, but ongoing risk reduction is essential to Novacor's business and the people it serves.

Nineteen-ninety-two was a particularly significant year for Responsible Care achievements at Novacor:

► Novacor adopted Responsible Care as its 'umbrella' EHS policy.

► By the end of the year, the division met its commitment to implement the six codes of practice in all its Canadian operations. Achieving this milestone was the culmination of a four-year effort by Novacor. In Novacor's U.S. operations, six comparable codes of conduct will be implemented by the end of 1993. Achieving this milestone will place Novacor among the leaders in implementing Responsible Care in the United States.

► An internal Responsible Care Council was formed. This group develops and applies EHS policies, standards, programs and systems supporting Novacor's commitment to Responsible Care. The council is composed of senior representatives from all disciplines.

Looking ahead, Novacor is committed to:

► integrating Responsible Care standards throughout its operations;

► integrating a consistent audit program;

► integrating a Responsible Care information system;

► expanding its performance measurement capability;

► creating a corporate pollution prevention network; and

► improving the way performance is reported to all stakeholders.

Responsible Care was born in Canada in 1984. It has since been adopted by more than 20 countries worldwide.

® *Certification mark of the CCPA in Canada and the CMA in the United States.*

Canadian Chemical Producers' Association Responsible Care Codes of Practice

Research and Development: *guidelines for new product approval, early risk assessment, good laboratory practices.*
Manufacturing: *responsible management of all facilities and materials; employee and community protection.*
Community Awareness and Emergency Response: *through outreach, inform public regarding chemicals manufacturing facilities and community emergency response plans.*
Transportation: *prevention of transportation accidents, effective response to accidents, and public awareness about the transportation of chemicals.*
Distribution: *all activities related to the purchase, sale and distribution of chemicals; product information shared with customers, distributors, suppliers and contractors.*
Hazardous Waste Management: *reduce wastes at source, followed by recycling, recovery or reuse as preferred methods of waste management. Where possible, treat wastes to make them non-hazardous; otherwise, contain wastes securely and monitor.*

ENVIRONMENT:

Environmental Management Systems at NOVA

A commitment to environmental protection is a prominent feature of NOVA's Business Conduct Policy. This fundamental corporate value is supported by focused goals, an appropriate environmental management system, and expert external audits.

Accountability for managing environmental, health and safety (EHS) issues begins with NOVA's board of directors. To assist in fulfilling its responsibilities, the board created a special committee of directors to focus upon environmental issues within the company.

The *Public Policy, Risk and Environment Committee* meets regularly to review issues which affect the corporation's environmental policies, standards, programs and compliance status. The flow of information between this committee and management of NOVA's core businesses is facilitated by the company's Vice President and General Counsel, who is designated as Corporate Environmental Officer. This position contributes an important overall corporate perspective to environmental issues. Responsibility for environmental performance and implementing decisions of the committee rests with the senior officers of NOVA's businesses.

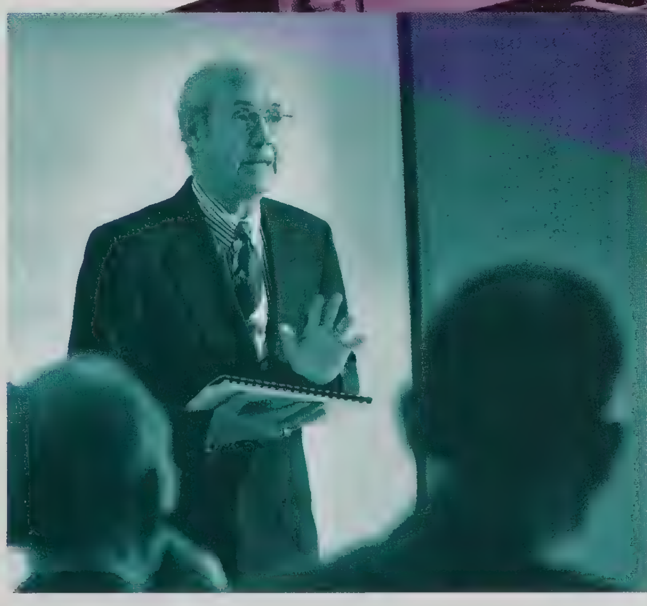
NOVA periodically evaluates its environmental performance through an established environmental audit program, which includes internal self-assessments as well as external evaluations.

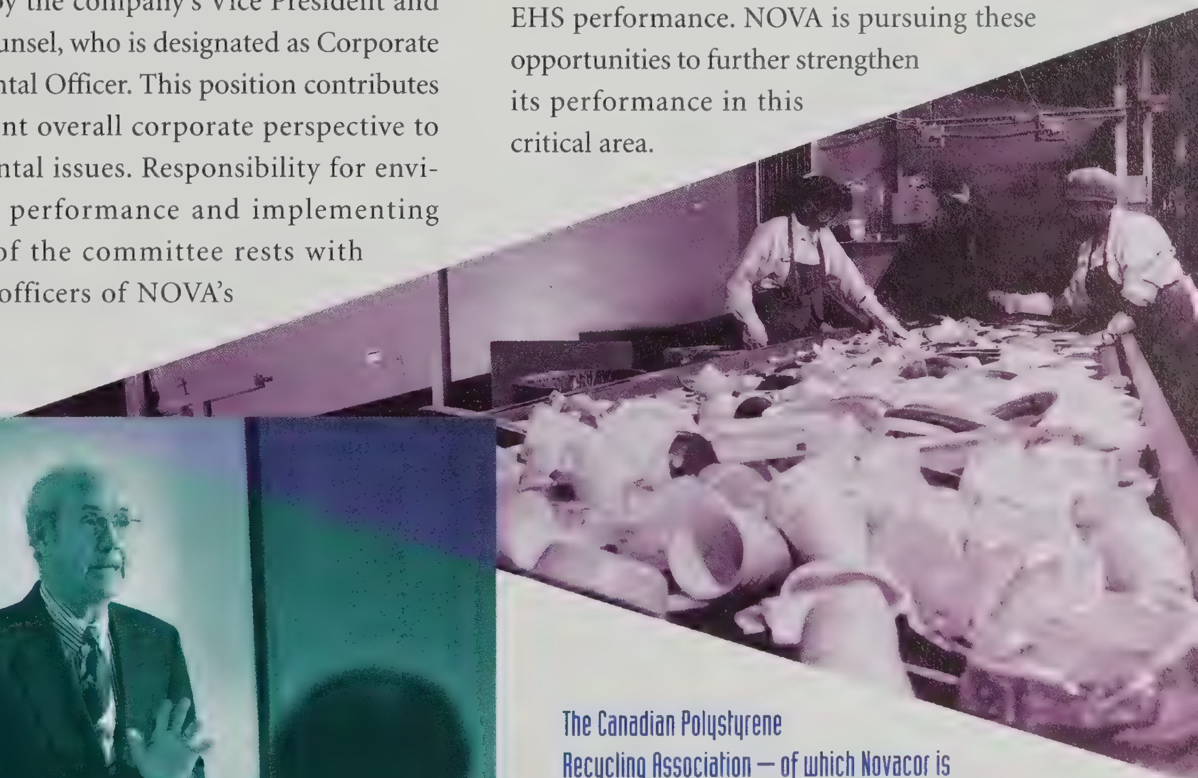
In 1992, NOVA commissioned Arthur D. Little, Inc., a recognized leader in EHS consulting, to perform an independent assessment of NOVA's EHS management systems. The Arthur D. Little assessment identified the following key strengths of NOVA's EHS management systems:

- an impressive board governance structure, which includes a committee responsible for EHS issues;
- an extraordinary corporate commitment to excellent EHS performance;
- EHS staff are highly qualified and carry out their responsibilities in an effective and professional manner;
- adequate resources have been devoted to EHS management.

The Arthur D. Little assessment also identified several areas where NOVA can improve its EHS performance. NOVA is pursuing these opportunities to further strengthen its performance in this critical area.

Noble Robinson (below) of Arthur D. Little, Inc. reports on his firm's assessment of environmental management systems at NOVA. The noted consulting firm found an extraordinary commitment to excellent environmental performance.





The Canadian Polystyrene Recycling Association — of which Novacor is an active member — helped launch Canada's first polystyrene recycling facility at Mississauga, Ontario. Yasoda Thakoordeen (above, left) and Elvetha Stephens sort industrial and food-service waste. Nearly 2 million pounds of polystyrene was recycled at this facility in 1992.

RESEARCH:

Enhancing Competitiveness Today, Positioning NOVA for Tomorrow

In the gas transmission business, research efforts are focused on reducing pipeline design, operation and maintenance costs. System reliability, customer responsiveness and mitigation of environmental impacts are other key research thrusts. Current research is being conducted in the fields of gas compression, pipeline metering and controls, and right-of-way technologies.

Chemicals research efforts are divided between technical support, and basic product and process research.

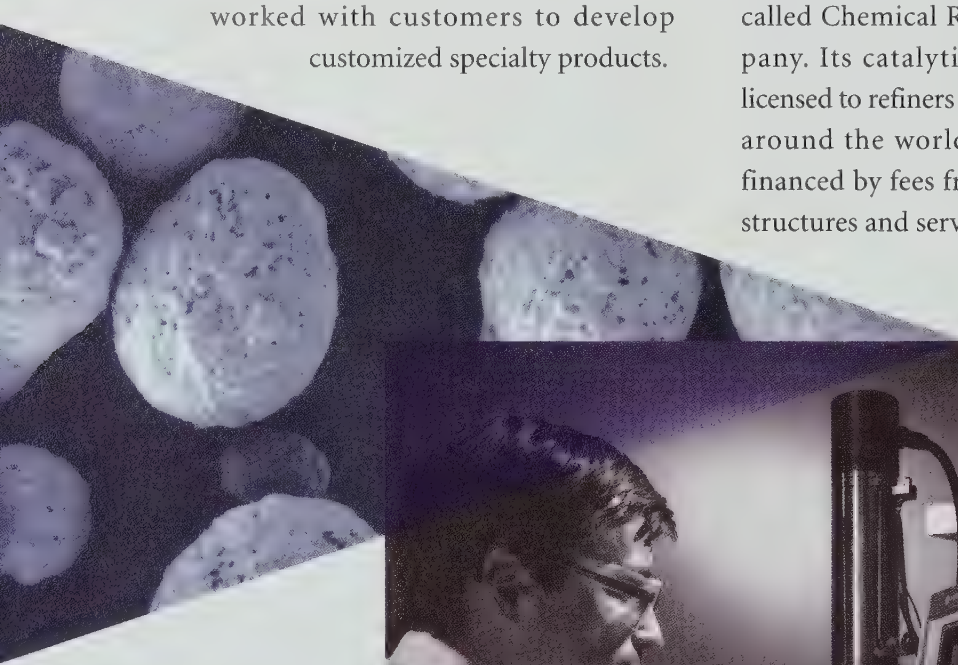
Technical support efforts improve NOVA's products to give better value to customers, based on their needs. For example, NOVA has worked with its customers to develop thinner, lighter products using our plastics. NOVA also has worked with customers to develop customized specialty products.

Basic product and process research helps add value to petrochemicals, and keeps NOVA current with developments in its plastics businesses.

- Polyolefins are NOVA's best-selling plastics, so research efforts in this area are significant.
- Catalyst and process technology is constantly changing: NOVA's research is aimed at keeping the company among the leaders.
- In polystyrene, NOVA continues to search for ways to improve the properties – and competitiveness – of this versatile plastic. Research also supports activities to develop new market opportunities for NOVA's line of clear plastics.

In 1992, NOVA discontinued research in new specialty plastics, and increased research in the polyolefins field. The company plans to boost polyolefins research further in 1993.

NOVA owns a unique refining and petrochemicals research company at Pasadena, Texas, called Chemical Research and Licensing Company. Its catalytic distillation technology is licensed to refiners and petrochemicals companies around the world. Ongoing research is fully financed by fees from current royalties, catalyst structures and services.



Factors such as particle shape and size (magnified above) are important for the smooth operation of the Joffre polyethylene reactors.

Rolf Saetre analyses polyethylene resin using a scanning electron microscope at the Novacor Research and Technology facilities at Calgary, Alberta.

MANAGEMENT DISCUSSION & ANALYSIS

Net income from ongoing operations was increased by $118 million.

This discussion and analysis of financial condition and results of operations for the three years ended December 31, 1992, should be read in conjunction with the consolidated financial statements and related notes in this annual report. The effects on net income arising from differences in generally accepted accounting principles in Canada and the United States are outlined in Note 21 to the consolidated financial statements.

Results of Operations

Net income in 1992 was increased by $118 million compared with net income from continuing operations (before the restructuring charge) in 1991. This improvement was largely the result of increased income from the chemicals business despite lower selling prices.

Earnings from chemicals operations were improved by $110 million over 1991 results. Lower operating, depreciation and interest expenses, together with higher sales volumes and a decrease in the value of the Canadian dollar, contributed to the improved performance.

Earnings from pipeline operations improved slightly during 1992. Increases in net income contribution due to rate base growth were largely offset by a reduction in the Alberta Gas Transmission Division (AGTD) rate of return on deemed common equity. The rate was reduced to 12.5 per cent from 13.75 per cent effective January 1, 1992, to reflect lower long-term interest rates.

Looking back to 1991, net income from continuing operations (before the restructuring charge) was $157 million lower than for 1990. The decrease was caused primarily by a decline in

Consolidated Results

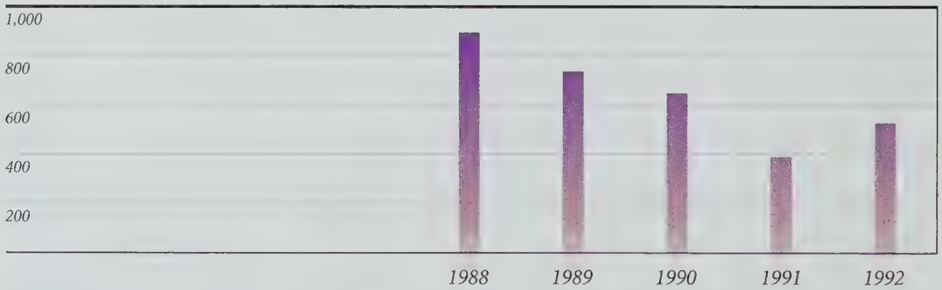
(millions of dollars, except for per share data)	**1992**	1991	1990
Net income from continuing operations before restructuring charge	**$ 164**	$ 46	$ 203
After-tax restructuring charge	**–**	(675)	–
Net income (loss) from continuing operations	**164**	(629)	203
Discontinued operation – Husky Oil Ltd.	**–**	(294)	(18)
Net income (loss)	**164**	(923)	185
Preferred share dividend entitlement	**(12)**	(14)	(18)
Net income (loss) to common shareholders	**$ 152**	$ (937)	$ 167
Average number of common shares (millions)	**388**	313	299
Net income (loss) from continuing operations per common share			
Basic	**$ 0.39**	$ (2.05)	$ 0.62
Fully diluted	**$ 0.39**	$ (2.05)	$ 0.61
Net income (loss) per common share			
Basic	**$ 0.39**	$ (2.99)	$ 0.56
Fully diluted	**$ 0.39**	$ (2.99)	$ 0.55

income from chemicals operations due to lower product selling prices. Profit margins for most chemicals declined sharply because of excess production capacity in the industry and a weak North American economy. This decline was partially offset by an increase in income from pipeline operations and reduced interest expense in the chemicals business. The increase in pipeline earnings was primarily the result of continued expansion of the AGTD pipeline system in

Changes in Net Income

(millions of dollars, net of income taxes)	*Increase (Decrease) in Net Income* **1992 Compared with 1991**	1991 Compared with 1990
Chemicals		
Cost savings		
Cash expenses	**$ 38**	$ –
Lower depreciation due to writedowns	**37**	–
Reduced interest expense	**12**	52
Lower selling prices	**(135)**	(179)
Lower feedstock and energy costs	**120**	68
Product volumes	**16**	(34)
Lower (higher) Canadian dollar	**15**	(8)
Operating income from rubber business in 1990	**–**	(16)
Other	**7**	(19)
	110	(136)
Pipelines		
Increase in AGTD rate base	**17**	27
Increase (decrease) in AGTD rate of return	**(10)**	1
	7	28
Corporate and other		
Gains on investments in 1990	**–**	(41)
Other	**1**	(8)
	1	(49)
Increase (decrease) in net income from continuing operations before restructuring charge	**$ 118**	$ (157)

Operating Income



	1988	1989	1990	1991	1992
(millions of dollars)	*897*	*741*	*652*	*394*	*536*

Chemicals cash costs were reduced by more than $50 million.

response to customer requests for increased service. Reduced interest expense in 1991 was due to lower debt levels as a result of the sale of the rubber business and lower interest rates.

NOVA's consolidated net loss of $923 million in 1991 included two non-recurring charges against income. These charges consisted of a $675 million after-tax restructuring charge and a $294 million loss resulting from the disposal of NOVA's interest in Husky Oil Ltd.

Due to poor market conditions in the chemicals industry and expectations that chemicals prices would remain depressed for some time, NOVA took several restructuring steps in 1991. These steps included:

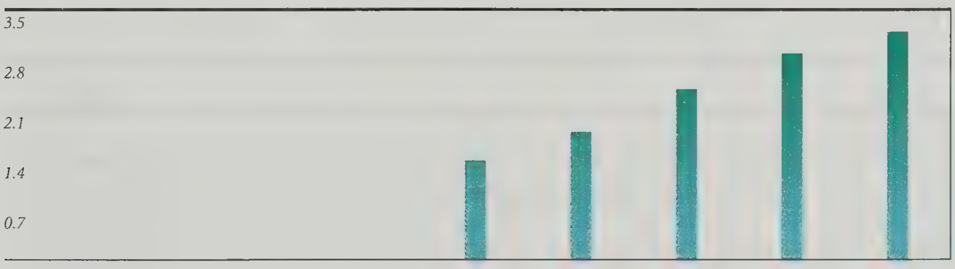
- the consolidation of the petrochemicals and plastics divisions into one division;
- the closure of non-competitive chemicals plants;
- the discontinuance of certain unprofitable product lines;
- the write-down of certain chemicals assets; and
- the streamlining and reorganization of management.

Over $600 million of the $675 million after-tax restructuring charge represents reductions to the carrying values of chemicals assets.

During 1991, NOVA sold its interest in Husky Oil Ltd. for $325 million. The proceeds were used to reduce non-cost-of-service debt. NOVA sold its investment in Husky in order to focus its available resources on its core businesses.

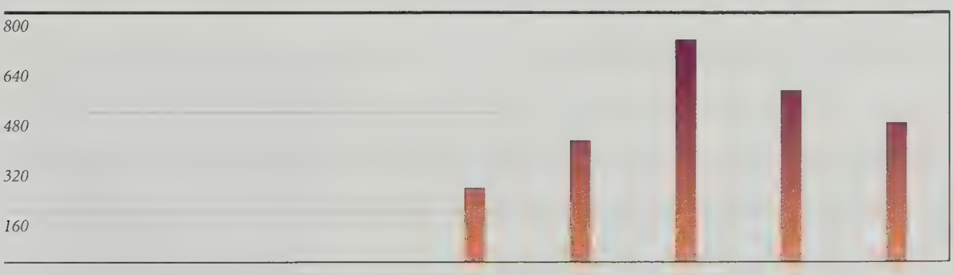
A summary of the major factors causing changes in net income from continuing operations (before the restructuring charge) is provided *(see chart on page 18).*

AGTD Year-End Rate Base



December 31	*1988*	*1989*	*1990*	*1991*	*1992*
(billions of dollars)	*1.4*	*1.8*	*2.4*	*2.9*	*3.2*

Pipeline Capital Expenditures



	1988	*1989*	*1990*	*1991*	*1992*
(millions of dollars)	*242*	*394*	*717*	*555*	*451*

Pipelines

NOVA's pipeline businesses operate under cost-of-service billing arrangements which provide for recovery of costs and an assured rate of return. The net income contribution from these businesses is discussed in more detail under Cost-of-Service Businesses *(see page 25).*

Alberta Gas Transmission Division

The Alberta Gas Transmission Division (AGTD) is a stand-alone business within NOVA. Its steady contribution to earnings provides the foundation for a stable and profitable company. As such, NOVA will not compromise its commitment to ensure the financial resources of the Corporation are sufficient to meet the requirements of an expanding AGTD pipeline system.

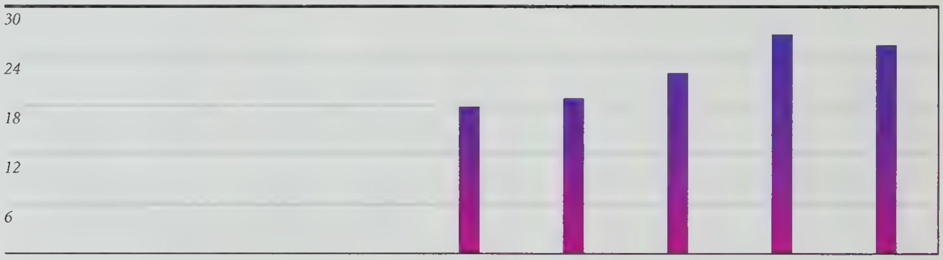
Net income contribution from the pipeline segment continues to increase as a result of the Alberta pipeline system's growing investment base. The average investment base for 1992 was approximately $3 billion. This is approximately twice the amount it was in 1989. This growth has been in response to customer requests to expand the system in order to transport additional natural gas. Gas shipments in 1992 were 21 per cent higher than in 1989.

AGTD has transported record volumes of natural gas in each of the last six years. This trend is expected to continue due to growing demand for natural gas in North America. Capital expenditures for the continued expansion of AGTD's pipeline system are expected to average approximately $500 million per year through 1995.

AGTD's net income in 1992 did not increase as much as in previous years due to a reduction in

AGTD's average rate base has doubled in the last three years.

AGTD Unit Cost-of-Service Transportation Charge



	1988	1989	1990	1991	1992
(cents per thousand cubic feet)	17.9	18.9	22.0	26.7	25.4

1992 AGTD Unit Cost-of-Service Components

Operating Expense	6.3
Transportation by Others	2.1
Capital Service	13.5
Common Equity	3.5
(cents per thousand cubic feet)	*1992 Unit Cost 25.4*

Capital expenditures for the continued expansion of AGTD's pipeline system are expected to average $500 million per year through 1995.

the rate of return on deemed common equity to 12.5 per cent from 13.75 per cent. This rate was set following a hearing by the Public Utilities Board of Alberta (PUB) which regulates AGTD's rates and tolls. The reduction reflected lower long-term interest rates. NOVA believes that the PUB decision will allow NOVA to maintain its credit rating and continue its pipeline expansion program. The rate was effective for all of 1992.

The Canadian Association of Petroleum Producers (CAPP) has requested that the PUB review AGTD's 1993 rate of return and deemed capital structure. CAPP has requested that the Public Utilities Board set AGTD's rate of return to reflect an 11.25 per cent return on a deemed common equity component of 25 per cent. This position is similar to the complaint filed in respect of 1992 rates. A hearing is scheduled to begin in June 1993 and a decision is expected by the fall of 1993.

The construction and operation of AGTD's pipeline system is regulated by the Energy Resources Conservation Board of Alberta (ERCB). In July 1992, the ERCB issued a report relating to operational matters concerning terms and conditions of transportation for the AGTD pipeline system. The report is currently being studied by the Government of the Province of Alberta.

Novacorp International Consulting Inc.

In December 1992, a 16.2 per cent interest in Gasinvest S.A. was purchased for $46 million. Gasinvest owns 70 per cent of the northern segment of Argentina's natural gas pipeline system. A subsidiary of Novacorp will be the technical operator of this system.

In 1992 a new company, OGP Technical Services, was created in Malaysia in partnership with Petroliam Nasional Berhad. NOVA has a 40 per cent interest in this new company. It will provide project management and engineering services in Asia. It has a substantial order backlog and good growth potential.

Pipelines

(millions of dollars)	**1992**	1991	1990
Revenue	**$ 877**	$ 821	$ 683
Operating income	**$ 406**	$ 365	$ 279
Depreciation	**$ 141**	$ 121	$ 96
Capital expenditures(1)	**$ 451**	$ 555	$ 717
Identifiable assets	**$ 3,790**	$ 3,275	$ 2,833
Contribution to net income			
Alberta Gas Transmission Division	**$ 149**	$ 142	$ 116
Foothills Pipe Lines Ltd.(2)	**16**	16	16
TQM Pipeline Partnership(2)	**5**	5	5
Novacorp International Consulting Inc.	**4**	6	3
Pan-Alberta Gas Ltd.	**2**	2	2
Corporate allocations and other(3)	**(9)**	(11)	(10)
	$ 167	$ 160	$ 132

(1) Net of retirements.

(2) Results are included in equity in earnings of affiliates.

(3) Includes an allocation of corporate interest expense.

Other Pipeline Businesses

Foothills Pipe Lines Ltd.

Foothills spent approximately $65 million in 1992 with the addition of two new compressor stations and the expansion or upgrading of existing facilities. Effective October 5, 1992, Foothills' rate of return on common equity was decreased to 12.5 per cent from 14.25 per cent.

Pan-Alberta Gas Ltd.

Pan-Alberta purchases natural gas in Alberta and British Columbia for transportation and resale to markets primarily outside Alberta. Pan-Alberta's gas purchase contracts do not involve take-or-pay liabilities.

TQM Pipeline Partnership

TQM owns and operates a natural gas pipeline system in Québec. The system is regulated by the National Energy Board of Canada (NEB). The NEB has approved tolls for 1993 and 1994 which include a 12.25 per cent after-tax return on a 25 per cent common equity component.

Chemicals

During 1992, net income contribution from the chemicals segment was increased from the prior year for the first time since 1988. Net income of $2 million in 1992 was $110 million greater than the results in 1991 ■ *(see chart on opposite page).* The increase in operating income from 1991 to 1992 has been primarily the result of restructuring actions initiated late in 1991 and efforts to reduce costs and increase sales volumes. Net income also rose as a result of lower interest expense due to reduced debt levels.

As NOVA continues to rationalize its chemicals businesses, certain non-competitive plants have been closed. A clear plastics plant in West Haven, Connecticut, and a polystyrene plant in Leominster, Massachusetts were closed in 1992. A polystyrene plant in Cambridge, Ontario, and a styrene plant in Sarnia, Ontario, were closed in 1991.

The cost-of-service businesses in the chemicals segment continue to contribute in excess of $40 million per year to NOVA's net income ■ *(see chart on page 25).* For other chemicals

Production

(millions of pounds, except methanol)	**1992**	1991	1990
Ethylene (1)			
Joffre	**3,188**	3,250	3,200
Corunna	**1,388**	1,130	1,230
Polyethylene			
Linear low-density	**1,008**	950	925
Low-density	**204**	170	190
High-density	**364**	320	300
Styrene	**566**	620	820
Polystyrene	**641**	650	630
Propylene	**706**	635	775
Polypropylene	**116**	115	100
Methanol (2)	**282**	310	225

(1) In 1992, 2,619 million pounds of ethylene were sold under long-term cost-of-service arrangements, 479 million pounds were sold at market-related prices and 1,435 million pounds were used internally.

(2) Millions of U.S. gallons.

Chemicals earnings improved by $110 million.

businesses, profitability is largely determined by the balance between capacity and demand and its effect on prices.

During the past few years, prices for most chemicals have declined sharply due to lower demand (caused by the recession in North America), coupled with increasing worldwide production capacity. Chemicals markets remained weak in 1992 and prices were lower than in 1991. Chemicals market conditions are expected to improve gradually during the latter part of 1993 and in 1994.

Operating income for all products, except methanol, rose in 1992 compared with 1991 ■ *(see chart below)*. This was accomplished through lower feedstock costs, cost-containment programs, increased sales volumes for ethylene and polyethylene, a weaker Canadian dollar, and lower depreciation.

The exception to the trend in operating income was methanol. During 1991, when margins for other chemicals were decreasing, methanol showed improved performance due to increasing demand and lower feedstock costs.

Chemicals

(millions of dollars)	**1992**	1991	1990
Revenue			
Ethylene	**$ 1,350**	$ 1,380	$ 1,814
Styrene	**200**	239	420
Methanol	**161**	185	120
Polyethylene	**559**	525	612
Polystyrene	**210**	318	363
Rubber	**–**	–	641
Other	**107**	21	36
	2,587	2,668	4,006
Intrasegment eliminations	**(437)**	(415)	(709)
	$ 2,150	$ 2,253	$ 3,297
Operating income (loss)			
Ethylene			
Cost-of-service	**$ 91**	$ 95	$ 100
Non-cost-of-service	**75**	33	118
Styrene	**(40)**	(52)	68
Methanol	**13**	33	–
Polyethylene	**(6)**	(46)	56
Polystyrene	**(9)**	(19)	13
Rubber	**–**	–	26
Other	**6**	(15)	(8)
	$ 130	$ 29	$ 373
Contribution to net income(1)	**$ 2**	$ (108)	$ 28
Depreciation	**$ 148**	$ 179	$ 212
Capital expenditures	**$ 79**	$ 111	$ 216
Identifiable assets	**$ 2,373**	$ 2,440	$ 2,933

(1) Includes an allocation of corporate interest expense.

Demand for methanol had increased due to its use in the production of methyl tertiary butyl ether (MTBE), an octane enhancer for gasoline. During 1992, methanol prices declined due to a surplus of MTBE and because demand in other markets for methanol (such as formaldehyde) decreased. Prices are expected to increase in the near term as MTBE inventories are drawn down in response to oxygenated fuel requirements legislated in the United States.

NOVA's objective for its chemicals businesses is to achieve sustainable financial results within the top quartile of the industry in North America. During 1992, NOVA completed a comprehensive strategic review of each of its chemicals businesses.

Results from this review indicate plants comprising approximately 60 per cent of the fixed assets of the chemicals segment are already in the top quartile. These plants include the ethylene, polyethylene and methanol plants in Alberta, the Texas styrene operation and the polystyrene plant in Alabama. NOVA is committed to building these businesses. NOVA's competitive advantage stems from a combination of large-scale modern technology, high quality and low feedstock costs.

Businesses which are equal to the industry include the ethylene and styrene plants in Ontario, the polystyrene plants other than those in Alabama and Québec, and the polypropylene plant in Michigan. Businesses which are higher-than-average-cost producers include the polyethylene plant in Ontario and the polystyrene plant in Québec. NOVA is currently implementing actions at these plants to improve their performance.

The chemicals business exceeded its objective of generating sufficient funds to finance its operations and capital spending programs in 1992. For 1993 NOVA has identified a number of expansion projects. It is expected that the capital spending program will require funds in addition to those generated by chemicals operations in 1993. Capital expenditures to maintain facilities, increase capacity and reduce operating costs are expected to be between $250 million and $300 million in 1993.

Operating income from products described as "Other" increased by $21 million in 1992 compared with 1991. This increase resulted from the discontinuance of certain unprofitable product lines and the inclusion of 1992 earnings from Novalta Resources Inc. Novalta had been held for sale during 1990 and 1991 but will now be retained. Novalta will be primarily a vehicle for holding and developing natural gas reserves to be used as feedstock for the chemicals business.

A synthetic natural gas sales contract will expire in April 1993, and will result in an annual reduction in net income of approximately $9 million.

NOVA's objective for its chemicals businesses is to achieve sustainable top quartile results.

Average Realized Selling Prices in All Markets

	4th Quarter 1992	1992	1991	1990
Ethylene (U.S. cents/lb)[1]	**$ 0.22**	**$ 0.20**	$ 0.21	$ 0.24
Styrene (U.S. cents/lb)	**0.20**	**0.22**	0.26	0.41
Methanol (U.S. cents/U.S. gallon)	**0.41**	**0.40**	0.48	0.38
Propylene (U.S. cents/lb)	**0.11**	**0.11**	0.15	0.13
Polyethylene (U.S. cents/lb)	**0.31**	**0.30**	0.32	0.37
Polystyrene (U.S. cents/lb)	**0.39**	**0.39**	0.42	0.49

(1) Ethylene selling prices presented are average U.S. Gulf Coast prices to preserve customer confidentiality.

Cost-of-Service Businesses

The Corporation's income and cash flow from the pipeline business and the ethylene portion of the Alberta chemicals business are generated from cost-of-service operations ■ *(see chart below)*. Customers of these businesses have agreed to pay NOVA for all reasonable and necessary costs incurred in providing the service or product, plus a specified after-tax return on NOVA's investment. Generally, the contribution to net income to common shareholders can be calculated using the following formula:

NOVA's investment in the net assets of the business
[the rate base]
X
the deemed common equity percentage
X
the rate of return
=
NET INCOME

Investment and Return on Cost-of-Service Businesses

(millions of dollars)	NOVA's Share of Average Investment **1992**	1991	1990	Deemed Common Equity	Net Income **1992**	1991	1990
Pipelines							
Alberta Gas Transmission Division							
Common equity (1)	**$ 3,005**	$ 2,569	$ 1,950	32%	**$ 120**	$ 112	$ 85
Preferred equity					**12**	7	8
Allowance for funds used during construction					**17**	23	23
					149	142	116
Foothills Pipe Lines*							
Phase I (2)	**$ 299**	$ 296	$ 292	25%	**13**	13	13
Phase II					**3**	3	3
					16	16	16
TQM Pipeline (3) *	**$ 166**	$ 173	$ 179	25%	**5**	5	5
Other					**2**	2	2
					172	165	139
Chemicals							
Ethylene plants (4)	**$ 538**	$ 574	$ 599		**37**	37	38
Other*					**7**	7	8
					44	44	46
Net income contribution					**$ 216**	$ 209	$ 185
Identifiable assets					**$ 4,144**	$ 3,790	$ 3,302

* *Results are included in equity in earnings of affiliates. Equity earnings from chemicals investments include NOVA's share of earnings from the Fort Saskatchewan Ethylene Storage Limited Partnership, the Ethane Gathering System and Pan-Alberta Resources Inc.*

(1) *After-tax return – 1992 – 12.5%; 1991 – 13.75%; 1990 – average of 13.65%.*

(2) *After-tax return – 1992 – average of 13.82%; 1991 and 1990 – 14.25%.*

(3) *After-tax return – 13.75%.*

(4) *After-tax return is 20% on a deemed equity position which averaged 34% in 1992, 33% in 1991 and 32% in 1990.*

The rate base increases by the amount of capital expenditures incurred by NOVA for construction of the facilities. The rate base decreases as the facilities are depreciated. The depreciation charge is billed to customers. This allows NOVA to recover, over time, the capital it has invested.

The rate base is deemed to be financed partly through equity and partly through debt. NOVA earns a specified rate of return on the common equity portion. Interest on debt and dividends on preferred equity are paid by NOVA's customers. The consolidated cost-of-service deemed capitalization is shown below ■ *(see chart).*

A similar return is also earned on funds used during the construction of assets, before these assets are added to the rate base. This is referred to as "Allowance for funds used during construction."

Liquidity and Capital Resources

NOVA's liquidity position is very strong due to positive funds flow from operations and the availability of committed credit facilities with various banks. During 1992, the Corporation generated $451 million of funds from continuing operations compared with $223 million in 1991 and $509 million in 1990. The increase in funds flow from 1991 to 1992 was principally due to higher operating income from chemicals operations and lower non-cost-of-service interest expense. The decrease in funds flow from 1990 to 1991 was due to a decline in net income caused primarily by lower chemicals prices. At December 31, 1992, NOVA had unutilized contracted credit facilities with five Canadian banks totalling approximately $1.2 billion.

Non-cost-of-service debt has been reduced by $1.5 billion since 1989.

Capitalization

December 31 (millions of dollars)	**1992**		1991		1990	
		%		%		%
Cost-of-service						
Long-term debt (1)	**$ 2,425**	**63**	$ 2,347	65	$ 2,029	65
Preferred shares	**182**	**5**	89	3	95	3
Common equity	**1,265**	**32**	1,150	32	1,003	32
	$ 3,872		$ 3,586		$ 3,127	
Non-cost-of-service						
Long-term debt (1)	**$ 462**	**34**	$ 815	64	$ 963	40
Preferred shares	**–**	**–**	100	8	100	4
Common equity (2)	**907**	**66**	362	28	1,365	56
	$ 1,369		$ 1,277		$ 2,428	
Consolidated						
Long-term debt (1)	**$ 2,887**	**55**	$ 3,162	65	$ 2,992	54
Preferred shares	**182**	**3**	189	4	195	3
Common equity (2)	**2,172**	**42**	1,512	31	2,368	43
	$ 5,241		$ 4,863		$ 5,555	

(1) Includes current portion and excludes current operating bank loans of $222 million at December 31, 1992 (1991 – $262 million; 1990 – $242 million).
(2) Includes NOVA's $150 million convertible debentures.

$568 million in new equity was raised in 1992.

During the past three years, NOVA has required significant amounts of new capital to finance the rapid expansion of its Alberta pipeline system. Capital expenditures for the three-year period have totalled $2.1 billion, of which $1.7 billion was for pipeline expansion. NOVA has also reduced its non-cost-of-service long-term debt by $1.5 billion during this period. At December 31, 1992 NOVA's non-cost-of-service long-term debt was $462 million.

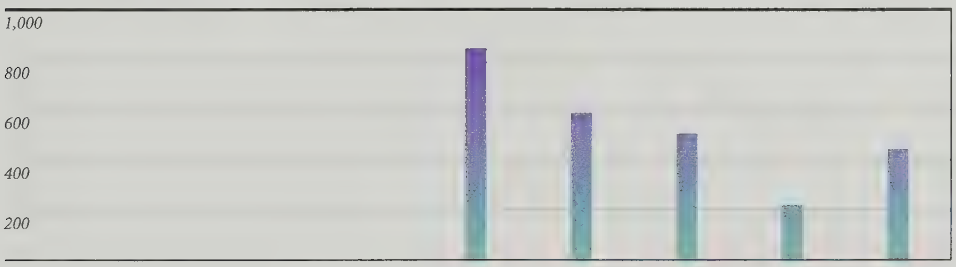
To help finance its capital spending program and reduce its debt, the Corporation has raised additional common equity and sold certain assets. The sale of 107 million common shares provided $780 million over the past three years. The sale of NOVA's interest in Husky Oil Ltd. in 1991 provided $325 million and the sale of the rubber business in 1990 provided $1.3 billion.

The capitalization of the Corporation over the last three years is outlined on page 26 ■ *(see chart on opposite page).*

To conserve cash, NOVA reduced the quarterly dividend on common shares to 6 cents from 13 cents per share commencing with the November 15, 1991, payment. The Corporation also restricted capital spending in the chemicals business during 1992 to the minimum level necessary to ensure safe, reliable and environmentally responsible operations.

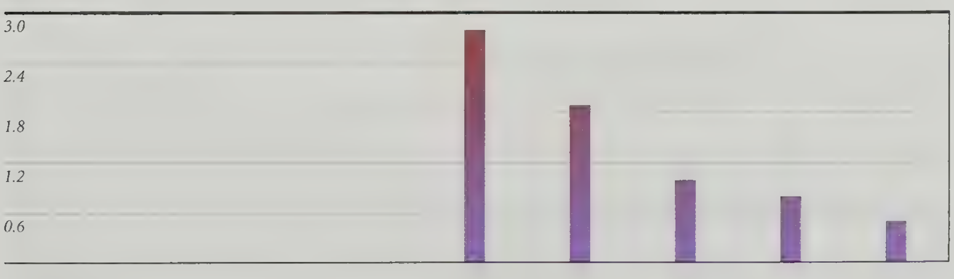
For 1993 NOVA has identified certain areas in its chemicals business where it believes it will be advantageous to invest additional capital. These expenditures, together with the ongoing capital requirements of the pipelines business, are expected to be between $750 million and $800 million in 1993.

Funds from Continuing Operations



	1988	1989	1990	1991	1992
(millions of dollars)	848	591	509	223	451

Non-Cost-of-Service Long-Term Debt



December 31	1988	1989	1990	1991	1992
(billions of dollars)	2.8	1.9	1.0	0.8	0.5

It is expected that 1993 capital requirements which exceed cash generated by operations will be financed through long-term debt. To facilitate the issuance of this debt, NOVA filed shelf prospectuses with Canadian and United States securities regulators in September 1992. These prospectuses allow the Corporation to raise up to Cdn. $600 million and U.S. $600 million by the issuance of unsecured debt securities and debt warrants. In December 1992, NOVA issued U.S. $300 million of long-term debt under the United States shelf prospectus. Proceeds were used to repay bank loans and other debt issued to finance the expansion of the Alberta pipeline system.

The Corporation's ability to raise capital at favorable interest rates was enhanced during 1992 when Canada's two principal bond rating agencies (Canadian Bond Rating Service and Dominion Bond Rating Service) raised NOVA's credit rating from BBB (High) to A (Low). In the United States, Moody's Investors Service and Standard & Poor's Corporation assigned initial ratings of Baa 1 and A- respectively to NOVA's unsecured debt securities to be issued in the United States.

NOVA believes that cash flow from operations, the availability of bank credit facilities and access to long-term capital markets will be sufficient to finance its debt repayment obligations and ongoing capital spending programs.

Sensitivity to Market Conditions

NOVA's profit performance is influenced by fluctuations in chemicals selling prices,

Factors Affecting Chemicals Cash Flow and Net Income

Assumptions (1) (millions of dollars)	*Estimated Annual Increase in Cash Flow*	*Estimated Annual Increase in Net Income*
Increase in profit margin of U.S. 1¢ per pound		
Ethylene	$ 6	$ 4
Propylene	7	5
Styrene	7	5
Methanol (U.S. 1¢ per U.S. gallon)	4	3
Polyethylene	19	12
Polystyrene	7	5
Polypropylene	1	1
Decrease in price of oil by U.S. $1/barrel	10	6
Decrease in value of Canadian dollar by U.S. 1¢	8	5

(1) A decrease in profit margins, or an increase in the price of oil or the value of the Canadian dollar, will have the opposite effect on cash flow and net income.

Factors Affecting AGTD Net Income

Assumptions (1) (millions of dollars)	*Estimated Annual Increase in Net Income*
Increase of $100 million in capital spending	$ 2
Increase of 1% in rate of return	11
Increase of 1% in deemed common equity	4

(1) A decrease in these factors will have the opposite effect on net income.

feedstock costs, sales volumes and foreign currency exchange rates. The Corporation's chemicals products are sold in highly competitive markets, principally in Canada, the United States, Europe and the Pacific Rim. Supply and demand conditions for individual products are subject to significant fluctuations that may have a material impact on prices, profit margins and NOVA's earnings. Prices for most of the Corporation's chemicals products are established in terms of the U.S. dollar.

NOVA has contracted for most of its natural gas feedstock requirements through 1993 and is not materially exposed to fluctuations in the price of natural gas for that calendar year. Interest rates will not have a significant impact on earnings or cash flows due to the low level of non-cost-of-service variable rate debt.

The estimated impact of changes in certain market conditions on chemicals business cash flow and net income for 1993 is shown on page 28 ■ *(see chart on opposite page).*

Net income from cost-of-service activities can be affected by the level of capital expenditures and changes in the deemed common equity percentage and rate of return *(see "Cost-of-Service Businesses" on page 25).* The estimated effect for 1993 of such changes on AGTD is shown on page 28 ■ *(see chart on opposite page).*

Environmental Regulations

NOVA is committed to protecting and conserving the natural environment and complying with applicable laws and regulations. NOVA believes that it is operating in material compliance with these laws and regulations. It is anticipated that regulations will become increasingly stringent and may increase environmental compliance costs in the future.

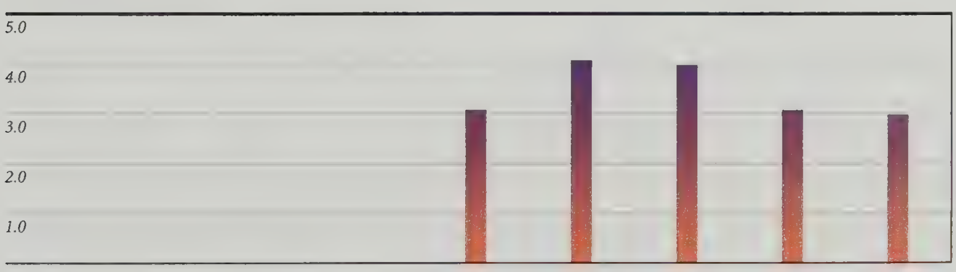
NOVA has certain obligations for the remediation of discontinued sites. Adequate provisions, amounting to $58 million, have been made in the financial statements to cover these costs.

Environmental capital expenditures, including pollution abatement and remedial programs, were $27 million in 1992, $35 million in 1991 and $42 million in 1990 and are estimated to be $30 million in 1993 and $25 million in 1994. Operating expenses relating to environmental protection were $17 million in 1992, $16 million in 1991 and $17 million in 1990 and are estimated to be $18 million in 1993 and $18 million in 1994.

Research and Development

NOVA has an ongoing research and development program. The program helps ensure NOVA

Revenue



	1988	1989	1990	1991	1992
(billions of dollars)	3.1	4.1	4.0	3.1	3.0

remains technologically competitive and that production and operating costs are minimized. Most of NOVA's research resources are dedicated to the chemicals business. Research efforts are directed at improving the properties of NOVA's products and the technology used in their production. NOVA also helps its customers improve the way they use NOVA's products. Total expenditures for research and development amounted to $41 million in 1992, $40 million in 1991 and $50 million in 1990.

Financial Instruments

The Corporation utilizes interest rate swaps, forward contracts and currency options for the purchase or sale of foreign currencies and commodities. Agreements are entered into to minimize the risk of losses due to changing rates or prices. These agreements also have the effect of limiting upside potential for gains. These instruments are used for hedging purposes, not for speculation.

Postretirement Benefits Other than Pensions

In 1993, NOVA will be prospectively changing the method used in accounting for postretirement benefits other than pensions. Effective January 1, 1993, NOVA will be accruing the expected costs of providing these benefits during the periods in which the employees render service. Previously, these costs were expensed as they were incurred. As a result of this change in accounting policy, net income will be reduced by approximately $2 million in 1993. The accumulated unrecorded postretirement benefit obligation as at January 1, 1993, was approximately $20 million, which will be amortized over the estimated average remaining service lives of the employees.

Exchange Rates

	1992	1991	1990	1989	1988
$1.00 U.S. = $Cdn.(1)					
High	**$ 1.2938**	$ 1.1665	$ 1.2085	$ 1.2115	$ 1.3008
Low	**1.1401**	1.1193	1.1288	1.1558	1.1843
Average noon rate	**1.2083**	1.1458	1.1668	1.1842	1.2309
Year end	**1.2709**	1.1555	1.1599	1.1585	1.1925
$1.00 Cdn. = $U.S.(2)					
High	**$ .8771**	$ .8934	$ .8859	$ .8652	$ .8444
Low	**.7729**	.8573	.8275	.8254	.7688
Average noon rate	**.8276**	.8728	.8570	.8445	.8124
Year end	**.7868**	.8654	.8621	.8632	.8386

(1) Exchange rate for U.S. dollars in terms of Canadian dollars, based on the spot rate for U.S. dollars as reported by the Bank of Canada.

(2) Exchange rate for Canadian dollars in terms of U.S. dollars, based on the spot rate for U.S. dollars as reported by the Bank of Canada.

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Responsibility for Financial Statements

Management

The management of NOVA Corporation of Alberta is responsible for the preparation and presentation of the consolidated financial statements and related information included in the annual report. The consolidated financial statements have been prepared on the historical cost basis in conformity with accounting principles generally accepted in Canada and are consistent with other information presented in the annual report.

The preparation of the financial information contained in the annual report necessarily involves the use of estimates and judgments such as the selection and application of accounting principles appropriate in the circumstances and the measurement of the results of transactions that are not susceptible to precise determination. These estimates and judgments have been based on a careful assessment of data made available through the Corporation's information systems and when appropriate through consultation with specialist professionals such as actuaries and lawyers.

NOVA maintains a system of internal accounting controls designed to provide reasonable assurances for the prevention and detection of error and fraud, safeguarding of assets and reliability of financial records. The system is subject to continuous review through a corporate-wide internal audit program with appropriate management follow-up action. Management recognizes the limitations that are inherent in all systems of internal accounting control in providing assurance as to the integrity of data included in financial reports. However, management believes that NOVA has established an effective and responsive system of internal accounting controls, through careful selection and training of employees, segregation of responsibility, delegation of authority, personal accountability and the application of formal policies and procedures.

Ernst & Young, an independent firm of chartered accountants, have been engaged, as approved by a vote of the shareholders at the Corporation's most recent annual general meeting, to audit NOVA's consolidated financial statements in accordance with generally accepted auditing standards and to determine whether in their opinion the consolidated financial statements present fairly, in all material respects, the financial position, results of operations and changes in financial position of NOVA and its subsidiaries. Ernst & Young determine the audit scope, test the accounting records and transactions and perform such other audit procedures as they deem appropriate. They also assess the accounting principles used and significant estimates made by management and evaluate the overall financial statement presentation. Ernst & Young's report on the consolidated financial statements is included herein.

NOVA's management believes that the system of internal accounting controls, review procedures and established policies provide reasonable assurance as to the integrity and reliability of financial reports and that the Corporation's operations are conducted in conformity with the law and with a high standard of business conduct.

J.E. Newall, *President and Chief Executive Officer*

R.C. Milner, *Vice President and Treasurer*

February 16, 1993

A.T. Poole, *Vice President and Controller*

Audit and Finance Committee

With respect to NOVA's financial statements, the NOVA audit and finance committee reviews and monitors the financial reporting process on behalf of the Board of Directors. The committee, which is composed entirely of directors independent of management, meets quarterly to review the Corporation's unaudited interim financial statements, interim report to shareholders and news release on interim financial results before their distribution. Ernst & Young also carry out certain procedures related to NOVA's unaudited interim financial statements and review the interim financial information included in the Corporation's annual report and report their findings to the audit and finance committee. The committee also meets to review the annual financial statements and annual report and recommends them to the Board of Directors for approval. The audit and finance committee reviews reports prepared by the Corporation's internal and external auditors relating to its accounting policies and procedures as well as its internal controls. The committee reviews the Corporation's annual information reports prepared for various regulatory authorities and all prospectuses related to the issue of securities by the Corporation prior to filing with such regulatory authorities. The committee reviews management's recommendations with respect to the accounting policies and procedures employed by the Corporation and related matters of financial disclosure. The committee meets independently with internal auditors and external auditors to review the involvement of each in the financial reporting process and to consider the results of their audits. The audit and finance committee recommends the appointment of the Corporation's external auditors, who are elected annually by the Corporation's shareholders.

February 16, 1993

Harley N. Hotchkiss, *Chair, Audit and Finance Committee*

Auditors' Report

To the Shareholders of
NOVA Corporation of Alberta

We have audited the consolidated balance sheet of NOVA Corporation of Alberta as at December 31, 1992, 1991 and 1990 and the consolidated statements of income, reinvested earnings and cash flows for each of the years in the three year period ended December 31, 1992. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1992, 1991 and 1990 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1992 in accordance with accounting principles generally accepted in Canada.

February 16, 1993
Calgary, Canada

Ernst & Young
Chartered Accountants

Consolidated Statement of Income

Year Ended December 31 (millions of dollars, except for per share data)	**1992**	1991	1990
Revenue	**$ 3,027**	$ 3,074	$ 3,980
Operating costs and expenses			
Operating expenses	**2,202**	2,380	3,020
Depreciation and depletion	**289**	300	308
	2,491	2,680	3,328
Operating income	**536**	394	652
Other income (deductions)			
Interest expense (Note 6)	**(330)**	(341)	(399)
Allowance for funds used during construction	**17**	23	23
Equity in earnings of affiliates	**39**	33	34
Gain (loss) on investments (Note 13)	**–**	(8)	14
Restructuring charge (Note 14)	**–**	(750)	–
General and corporate (Note 15)	**(48)**	(58)	(58)
	(322)	(1,101)	(386)
Income (loss) from continuing operations			
before income taxes	**214**	(707)	266
Income taxes (Note 16)	**(50)**	78	(63)
Net income (loss) from continuing operations	**164**	(629)	203
Discontinued operation (Note 5)			
Loss from operations	**–**	(35)	(18)
Loss on disposal	**–**	(259)	–
	–	(294)	(18)
Net income (loss)	**164**	(923)	185
Less preferred share dividend entitlement	**(12)**	(14)	(18)
Net income (loss) to common shareholders	**$ 152**	$ (937)	$ 167
Average number of common shares			
outstanding (millions)	**388**	313	299
Net income (loss) from continuing operations			
per common share			
Basic	**$ 0.39**	$ (2.05)	$ 0.62
Fully diluted	**$ 0.39**	$ (2.05)	$ 0.61
Net income (loss) per common share			
Basic	**$ 0.39**	$ (2.99)	$ 0.56
Fully diluted	**$ 0.39**	$ (2.99)	$ 0.55

See accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

December 31 (millions of dollars)	1992	1991	1990
ASSETS			
Current assets			
Cash	$ 17	$ 2	$ 3
Receivables (Note 1)	448	383	440
Inventories (Note 2)	285	291	355
	750	676	798
Investments and other assets (Note 3)	343	280	522
Plant, property and equipment, net (Note 4)	5,096	4,846	4,734
Assets of continuing operations	6,189	5,802	6,054
Net assets of discontinued operation (Note 5)	–	–	627
	$ 6,189	$ 5,802	$ 6,681
LIABILITIES AND COMMON SHAREHOLDERS' EQUITY			
Current liabilities			
Bank loans (Note 6)	$ 222	$ 262	$ 242
Accounts payable and accrued liabilities (Note 7)	538	535	628
Long-term debt instalments due within one year (Note 6)	81	106	92
	841	903	962
Long-term debt (Note 6)			
Cost-of-service	2,353	2,270	1,950
Non-cost-of-service	453	786	950
	2,806	3,056	2,900
Other deferred credits (Note 8)	188	142	256
Preferred shares – redeemable (Note 9)	182	189	195
Convertible debentures and common shareholders' equity			
Convertible debentures (Note 10)	150	150	150
Common shareholders' equity			
Common shares and warrants (Note 11)	1,928	1,832	1,624
Cumulative translation adjustment (Note 12)	37	13	20
Reinvested earnings (deficit)	57	(483)	574
	2,172	1,512	2,368
Contingencies and commitments (Notes 6, 9 and 19)			
	$ 6,189	$ 5,802	$ 6,681

On behalf of the board:

J.E. Newall, *Director*

Harley N. Hotchkiss, *Director*

See accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements.

Consolidated Statement of Reinvested Earnings

Year Ended December 31 (millions of dollars)	**1992**	1991	1990
Reinvested earnings (deficit), beginning of year	$ **(483)**	$ 574	$ 562
Net income (loss)	**164**	(923)	185
Transfer from common share capital	**483**	–	–
	164	(349)	747
Less dividends			
Preferred shares	**(12)**	(14)	(18)
Common shares	**(95)**	(120)	(155)
	(107)	(134)	(173)
Reinvested earnings (deficit), end of year	$ **57**	$ (483)	$ 574

In 1992, pursuant to a resolution of its common shareholders, the Corporation reduced the stated common share capital by $483 million in order to eliminate the deficit as at December 31, 1991.

In 1987, pursuant to a resolution of its Board of Directors and in conjunction with the reorganization of its share capital, the Corporation transferred the balance in the contributed surplus account of $227 million to reinvested earnings.

See accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Year Ended December 31 (millions of dollars)	1992	1991	1990
Operating activities			
Net income (loss) from continuing operations	**$ 164**	$ (629)	$ 203
Depreciation and depletion	**289**	300	308
Deferred income taxes	**34**	(99)	1
Equity in earnings of affiliates	**(39)**	(33)	(34)
Loss (gain) on investments	**–**	8	(14)
Non-cash items in restructuring charge	**–**	683	–
Other	**3**	(7)	45
Funds from continuing operations	**451**	223	509
Changes in non-cash working capital (Note 17)	**(22)**	23	(24)
Cash from continuing operations	**429**	246	485
Cash used by discontinued operation	**–**	(35)	(40)
	429	211	445
Investing activities			
Proceeds on sale of investments	**–**	325	1,256
Plant, property and equipment additions	**(530)**	(666)	(933)
Other assets and long-term investments	**(66)**	(18)	(63)
Cash received from long-term investments	**47**	35	41
Changes in non-cash working capital (Note 17)	**–**	(3)	(16)
	(549)	(327)	285
Financing activities			
Common shares issued	**568**	205	7
Long-term debt additions	**727**	714	806
Long-term debt repaid	**(1,010)**	(663)	(1,375)
Preferred shares purchased for cancellation	**(7)**	(6)	(9)
Dividends	**(107)**	(134)	(173)
Changes in current bank loans	**(40)**	20	(26)
Changes in non-cash working capital (Note 17)	**4**	(21)	–
	135	115	(770)
Increase (decrease) in cash	**15**	(1)	(40)
Cash at beginning of year	**2**	3	43
Cash at end of year	**$ 17**	$ 2	$ 3

See accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements.

Summary of Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards. All dollar figures used in the consolidated financial statements are reported in Canadian dollars unless otherwise indicated. The significant accounting policies are as follows:

Principles of consolidation

The consolidated financial statements include the accounts of NOVA Corporation of Alberta (the "Corporation" or "NOVA"), which is incorporated under the laws of Alberta, and its subsidiaries.

Cost-of-service

Pipeline and some operations in the chemicals business operate under billing arrangements which provide for the recovery of reasonable and necessary operating expenses, cost of feedstock and fuel, depreciation, amortization, income and other taxes, interest and net foreign exchange gains and losses in respect of debt service and an assured rate of return on investment.

Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis with no allocation of fixed production overhead.

Investments

The Corporation accounts for its investments in affiliates and joint ventures in which it is able to exercise significant influence by the equity method. Under this method, the investment is carried at cost plus the related share of undistributed earnings. Other investments are carried at cost. Investments held for sale are recorded at the lower of net realizable value and carrying value.

Plant, property and equipment

Plant, property and equipment are carried at cost and additions include related financing costs during major plant construction.

Future removal and site restoration costs for chemicals plants are provided for on a straight-line basis over the expected remaining economic lives of the plants when such costs can be reasonably determined. Future removal and site restoration costs for pipeline operations are not provided for, as it is expected these costs will be recovered from customers.

The Corporation's investment in oil and gas exploration and development activities is accounted for under the successful efforts method of accounting. The initial acquisition cost of oil and gas properties and the cost of drilling and equipping development wells and successful exploratory wells are capitalized. The costs of exploration wells classified as unsuccessful are charged to expense at the time of abandonment. All other exploration expenditures, including geological and geophysical costs and annual rentals on exploratory acreage, are charged to expense as incurred.

Depreciation and depletion

Plant and equipment are depreciated on the straight-line basis at annual rates varying from 2 per cent to 33 per cent which rates are designed to write these assets off over their estimated useful lives.

For oil and gas operations, the acquisition cost of proved properties is amortized on the unit-of-production method using proved reserves. Successful exploratory wells and all development wells together with related equipment are depleted and depreciated on the unit-of-production method using proved developed reserves. The cost of non-producing acreage is amortized based on past experience and other relevant factors which might impair the cost.

Allowance for funds used during construction

For pipeline and some operations in the chemicals business, a return on capital invested in new plant under construction is recoverable from customers and is included in income.

Income taxes

The deferral method of tax allocation accounting is followed in respect of all income except for pipeline and some operations in the chemicals business which are subject to cost-of-service agreements. Under this method, provision is made for income taxes deferred principally as a result of claiming capital cost allowance and exploration and development costs for income tax purposes in excess

of depreciation and depletion provided in the accounts. The agreements for certain cost-of-service operations provide for the recovery of income taxes on the taxes payable method. The income tax provision recorded for these operations represents only the income taxes deemed to be currently payable and recoverable under the billing mechanism in place. Investment tax credits are recorded as a reduction in the cost of the related asset.

Pension plans

The cost of pension benefits earned by employees is determined using the projected benefit method prorated on service and is charged to expense as services are rendered in all operations except for those which are subject to cost-of-service agreements. The cost of pension benefits reflects management's best estimates of the expected investment yields, salary escalations, mortality rates, terminations and the age at which members will retire. Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions are amortized on a straight-line basis over the estimated average remaining service lives of the employee groups. The adjusted market value of pension plan assets is determined based on a four-year moving average of pension plan asset market values.

The agreements for certain cost-of-service operations provide for the recovery of pension costs on the basis of cash contributions. The pension expense for these operations represents only contributions made to the pension plans during the year and therefore recoverable under the billing mechanism in place.

Postretirement benefits other than pensions

The Corporation provides certain health care, dental care and life insurance benefits to eligible retirees and their dependants. The cost of providing these benefits is expensed when incurred. Effective January 1, 1993, the Corporation will accrue these costs during the periods in which the employees render service (see Note 21).

Foreign currency translation

Foreign operations are considered financially and operationally independent and have been translated to Canadian dollars using the year-end rate of exchange (the "current rate") for assets and liabilities and average rates for the year for revenues and expenses. Gains or losses resulting from these translation adjustments are deferred in a separate component of common shareholders' equity, under the caption "Cumulative Translation Adjustment", until there is a realized reduction of the investment in the foreign operation.

Foreign denominated long-term monetary items (principally long-term debt) of Canadian operations are translated at the current rate of exchange. For foreign denominated long-term monetary items of cost-of-service operations, the exchange differential is recoverable from customers and is reported as a reduction or addition in the associated long-term monetary item. The unrealized translation gains or losses related to non-cost-of-service long-term monetary items are deferred and amortized over the remaining lives of the related items.

Interest rate swap agreements

The differential to be paid or received is accrued as interest rates change and is recognized over the lives of the agreements.

Forward contracts and options

The Corporation enters into forward contracts and options as a hedge against changes in commodity prices or foreign exchange rates. Market value gains and losses are recognized and the resulting credit or debit offsets the effect of increases or decreases in commodity purchase prices or foreign exchange gains or losses on foreign cash flows.

Net income (loss) per common share

Basic net income (loss) per common share is calculated using the weighted average number of common shares outstanding during the respective year and net income (loss) after provision for preferred share dividend entitlement. The calculation of net income (loss) per common share on a fully diluted basis assumes conversion of all securities and exercise of all common share purchase warrants or options if such action would result in dilution of net income per common share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Receivables

December 31 (millions of dollars)	1992	1991	1990
Trade	$ 357	$ 287	$ 328
Other	99	102	119
Allowance for doubtful accounts	(8)	(6)	(7)
	$ 448	$ 383	$ 440

The Corporation sells trade receivables to certain financial institutions on a revolving basis to certain limits. Recourse to the Corporation is limited to a maximum of 10% of the amount outstanding at any point in time. At December 31, 1992, trade receivables sold amounted to $126 million (1991 – $121 million, 1990 – $164 million).

2. Inventories

December 31 (millions of dollars)	1992	1991	1990
Materials and supplies	$ 103	$ 88	$ 75
Raw materials	84	119	161
Work in process	7	7	6
Finished goods	91	77	113
	$ 285	$ 291	$ 355

3. Investments and Other Assets

December 31 (millions of dollars)	1992	1991	1990
Pipeline investments	$ 202	$ 144	$ 145
Chemicals investments	104	104	153
Investments held for sale	–	–	168
Other assets	37	32	56
	$ 343	$ 280	$ 522

PIPELINE INVESTMENTS

Pipeline investments at December 31, 1992, consisted of a 50% interest in Foothills Pipe Lines Ltd., a company responsible for the planning, construction and operation of the Canadian segment of the Alaska Natural Gas Transportation System; a 50% interest in the TQM Pipeline Partnership ("TQM"), which operates a natural gas pipeline in Québec; and a 16.2% interest in Gasinvest S.A., which owns 70% of the northern segment of Argentina's natural gas pipeline system. During 1992, Foothills Pipe Lines Ltd. billed NOVA $64 million for gas transportation services (1991 – $85 million, 1990 – $73 million).

CHEMICALS INVESTMENTS

Chemicals investments at December 31, 1992, included a 20% interest in the Cochin pipeline which transports ethane, ethylene and other products from Alberta to markets in Ontario and the United States; a 50% interest in the Fort Saskatchewan Ethylene Storage Limited Partnership; a 33.3% interest in an ethane gathering system in Alberta; a 50% interest in the Catalytic Distillation Technologies Partnership which develops and sells technology, principally to the refining industry, and is located in Texas; a 42% interest in Shincor Silicones, Inc. which operates a silicone plant in Ohio; and a 50% interest in Pan-Alberta Resources Inc. which owns an ethane extraction plant in Alberta.

INVESTMENTS HELD FOR SALE

Investments held for sale at December 31, 1990, consisted of a 50% interest in Western Star Trucks Inc., a heavy-truck manufacturer; Novalta Resources Inc. ("Novalta"), a wholly owned oil and gas company; and a 50% interest in TQM. During 1991, NOVA sold its 50% interest in Western Star Trucks Inc., and determined that its investments in Novalta and TQM would no longer be held for sale.

OTHER ASSETS

Other assets include deferred debt issue costs which are being amortized over the terms of the related debt instruments. Also included is a 31.7% interest in Grove Italia S.p.A., a valve manufacturer in Italy.

4. Plant, Property and Equipment

December 31 (millions of dollars)	1992	1991	1990
Cost			
Pipelines	$ 4,295	$ 3,875	$ 3,303
Chemicals	2,720	2,631	2,842
Other	26	37	75
	$ 7,041	$ 6,543	$ 6,220
Accumulated depreciation			
Pipelines	$ 1,020	$ 915	$ 805
Chemicals	920	771	661
Other	5	11	20
	$ 1,945	$ 1,697	$ 1,486
Net book value			
Pipelines	$ 3,275	$ 2,960	$ 2,498
Chemicals	1,800	1,860	2,181
Other	21	26	55
	$ 5,096	$ 4,846	$ 4,734

5. Discontinued Operation

Effective June 1, 1991, NOVA accounted for its 43% interest in Husky Oil Ltd. ("Husky") as an asset held for sale and accordingly no longer included its share of Husky's earnings or losses in NOVA's net income. NOVA's share of earnings or losses from Husky prior to this date has been presented as a discontinued operation. On December 31, 1991, NOVA completed the sale of its interest in Husky for proceeds of $325 million which were used to reduce non-cost-of-service debt. Details of the loss from discontinued operation, including an allocation of interest based on the estimated debt component of the net investment in Husky, are as follows:

Year Ended December 31 (millions of dollars)	1992	1991	1990
NOVA's share of Husky's loss	$ –	$ (14)	$ (10)
NOVA's share of Husky's gain on sale of assets	–	–	16
Allocation of interest expense	–	(35)	(40)
Income tax recovery	–	14	16
Loss from operations	–	(35)	(18)
Loss on disposal of discontinued operation			
(net of income tax recovery of $30 million)	–	(259)	–
Discontinued operation	$ –	$ (294)	$ (18)

6. Long-Term Debt

December 31 (millions of dollars)		Maturity	**1992**	1991	1990
NOVA Corporation of Alberta					
Unsecured Debentures and Term Notes[1]					
8%	Series 4		$ –	$ –	$ 30
8-1/8%	Series 5		–	21	22
11-3/8%	Series 6	1995	**27**	31	31
17-3/4%	Series 8	1997	**27**	30	33
12-1/8%	Series 9	1993	**100**	100	100
11-1/8%	Series 12	1993	**50**	50	50
11.95%	Series 13	2007	**120**	125	125
10-3/4%	Series 14	1999	**100**	100	100
11.70%	Series 15	2008	**150**	150	150
11.15%	Series 16	1994	**150**	150	150
10.95%	Series 17	1994	**100**	100	100
11.20%	Series 18	2014	**150**	150	150
12-5/8%	Series 19	2010	**100**	100	100
11-7/8%	Series 20	2001	**100**	100	–
12.2%	Series 21	2016	**125**	125	–
10%	Series B	1996	**100**	100	100
8-3/4%	Series C ($U.S.)	1994	**127**	116	116
8-1/2%	($U.S.)	2012	**222**	–	–
9.65%	($U.S.)		–	40	41
9.95%	($U.S.)	1995	**95**	87	87
9-3/4%	($U.S.)	1997	**165**	150	151
9.45%	($U.S.)	1998	**191**	173	–
7-7/8%	($U.S.)	2002	**159**	–	–
Swiss francs[2]			–	62	67
Unsecured Bank Loans and Notes[2]			**12**	358	616
			2,370	2,418	2,319
Exchange differential related to cost-of-service customers			**(38)**	18	16
			2,332	2,436	2,335
Subsidiaries					
Secured Loans					
Ethylene plant I					
Secured Loan ($U.S.)[2]		1998	**182**	–	–
8-1/4% Secured Notes ($U.S.)			–	115	132
Ethylene plant II					
Secured Loan ($U.S.)[2]		2004	**195**	193	209
Secured Notes					
13-3/4% Series A ($U.S.)		1999	**21**	22	25
9.85% Series B ($U.S.)		2004	**23**	23	24
Secured Bank Loan[2]			**12**	14	14
			433	367	404

December 31 (millions of dollars)	Maturity	1992	1991	1990
Exchange differential related to cost-of-service customers		(12)	20	21
		421	387	425
Other[(2)]	Various	93	255	142
		514	642	567
Unsecured Loans[(2)]	Various	41	84	90
		2,887	3,162	2,992
Less instalments due within one year		81	106	92
		$ 2,806	$ 3,056	$ 2,900
Cost-of-service[(3)]		$ 2,353	$ 2,270	$ 1,950
Non-cost-of-service		453	786	950
		$ 2,806	$ 3,056	$ 2,900

(1) As at December 31, 1992, all unsecured debentures and term notes listed under NOVA Corporation of Alberta are included in the Alberta Gas Transmission Division's cost-of-service debt, except for Series 14, 16 and 17.

(2) The interest rate is a function of generally prevailing money market interest rates, Canadian bank prime rates and London Inter Bank offered rates. The composite average interest rate for these loans at December 31, 1992, was approximately 5-3/4% (1991 – 8-3/4%, 1990 – 11-1/2%). Interest rate exchange agreements have been made on $72 million of variable rate loans to fix the interest rate at approximately 10% for periods ranging from 1 to 13 months from December 31, 1992. The Corporation is exposed to credit loss in the event of non-performance by the other parties to the interest rate swap agreements. However, the Corporation does not anticipate non-performance by these parties.

(3) Long-term debt classified as cost-of-service debt represents the debt component of the capital structure for the rate base of the Corporation's cost-of-service operations. These regulated operations are subject to agreements under which the billing mechanism includes an assured return to provide for the repayment of such debt and the payment of interest expense. Realized foreign exchange gains or losses on such debt are also for the account of the customer.

In connection with various secured loans of subsidiaries, details of security pledged and other information related to these loans, which are non-recourse to the Corporation, are provided below:

ETHYLENE PLANT I

This financing is secured by a first fixed and floating charge on the first ethylene plant, the ethylene pipeline and related assets and by the assignment of certain related contracts.

ETHYLENE PLANT II

This financing is secured by charges on certain of the proceeds of the ethylene sales contracts for the second ethylene plant, charges on related performance guarantees and a first fixed charge on the second ethylene plant and certain related contracts.

OTHER SECURED LOANS

Other loans of $93 million in subsidiaries at December 31, 1992 (1991 – $255 million, 1990 – $142 million) are secured by certain assets and agreements of the subsidiaries.

SINKING FUND AND REPAYMENT REQUIREMENTS

Sinking fund and repayment requirements in respect of long-term debt for the five years following December 31, 1992, are: 1993 – $81 million; 1994 – $491 million; 1995 – $262 million; 1996 – $247 million; 1997 – $172 million.

Long-term debt of $150 million at December 31, 1992, which NOVA will refinance in 1993 with long-term funding, has been excluded from sinking fund and repayment requirements.

CURRENT BANK LOANS

Current bank loans of $222 million at December 31, 1992 (1991 – $262 million, 1990 – $242 million) include loans of $33 million (1991 – $40 million, 1990 – $40 million) which are secured by certain assets and agreements.

LINES OF CREDIT

At December 31, 1992, the Corporation had unutilized contracted credit facility agreements with a number of Canadian banks aggregating approximately $1.2 billion. The credit facilities expire between June 1993 and 1997 but may be renegotiated at those dates. NOVA may borrow in Canadian or U.S. dollars and other freely available European currencies at interest rates related to Canadian and U.S. prime rates or the London Inter Bank offered rates.

INTEREST EXPENSE

Year Ended December 31 (millions of dollars)	**1992**	1991	1990
Interest on long-term debt	**$ 304**	$ 339	$ 404
Interest on short-term debt	**19**	32	33
Interest on convertible debentures	**9**	9	9
Interest allocated to discontinued operation	**–**	(35)	(40)
Interest income	**(2)**	(4)	(7)
	$ 330	$ 341	$ 399

7. Accounts Payable and Accrued Liabilities

December 31 (millions of dollars)	**1992**	1991	1990
Accounts payable			
Trade	**$ 320**	$ 263	$ 388
Other	**29**	61	40
	349	324	428
Accrued liabilities			
Interest	**78**	86	78
Site cleanup and restoration (current portion)	**6**	11	16
Other	**61**	84	26
	145	181	120
Income taxes payable	**16**	7	36
Dividends payable	**28**	23	44
	$ 538	$ 535	$ 628

8. Other Deferred Credits

December 31 (millions of dollars)	**1992**	1991	1990
Deferred income taxes	**$ 64**	$ 35	$ 162
Deferred gain	**28**	33	38
Site cleanup and restoration (long-term portion)	**52**	44	26
Other	**44**	30	30
	$ 188	$ 142	$ 256

A gain realized from the sale and leaseback of the Corporation's head office building in 1985 has been deferred and is being credited to income over the term of the lease.

Other deferred credits include long-term costs associated with rationalization and restructuring and accruals for other long-term liabilities.

9. Preferred Shares – Redeemable

(a) Authorized

Unlimited number of cumulative first, second and junior preferred shares without par value.
100,000,000 subordinated junior preferred shares without par value.

(b) Issued and outstanding

December 31	Number of Shares 1992	1991	1990	Millions of Dollars 1992	1991	1990
Related to cost-of-service operations						
First preferred shares						
7-3/4%	**446,795**	482,995	520,695	$ **11**	$ 12	$ 13
9-3/4%	**475,240**	506,059	541,159	**12**	13	14
9.76%	**644,401**	725,001	800,901	**16**	18	20
7.60%	**1,731,820**	1,824,720	1,930,120	**43**	46	48
Variable rate[3]	**3,997,700**	–	–	**100**	–	–
				182	89	95
Related to non-cost-of-service operations						
First preferred shares						
Variable rate[3]	–	3,997,700	3,997,700	–	100	100
				$ 182	$ 189	$ 195

(c) Commentary

The following is a summary of material characteristics of the issued and outstanding preferred shares:

Preferred Share Issue	*Stock Exchange Symbol*	*Annual Dividend Per Share*	*Redemption Features*	*Sinking Fund and Purchase Fund Requirements[1]*
7-3/4%	E	$1.94	At $25.50 per share on or before May 15, 1994, and at $25.25 thereafter	Purchase fund of $750,000 annually to the extent shares are available, at a price not in excess of $25.00 per share; the purchase fund is cumulative to a maximum of $1,500,000 in any calendar year
9-3/4%	F	$2.44	At $25.00 per share	Cumulative sinking fund obligation of 64,000 shares annually at a price not in excess of $25.00 per share by May 15 of each year
9.76%	G	$2.44	At $25.00 per share	Cumulative sinking fund obligation of 96,000 shares annually at a price of $25.00 per share by November 15 of each year

Preferred Share Issue	*Stock Exchange Symbol*	*Annual Dividend Per Share*	*Redemption Features*	*Sinking Fund and Purchase Fund Requirements*[(1)]
7.60%	H	$1.90	At $25.00 per share	Purchase fund of 90,000 shares annually to the extent shares are available, at a price not in excess of $25.00 per share[(2)]
Variable Rate[(3)]	O	[(3)]	At $25.00 per share; retractable on February 15, 1995, at $25.00 per share	Purchase 3% of the shares outstanding annually, commencing February 16, 1995, at a price not in excess of $25.00 per share[(3)]

(1) The sinking and purchase fund requirements are at prices not in excess of the stated price per share plus accrued and unpaid dividends, if any, and the expenses related to the purchase. In addition to the cumulative mandatory sinking funds, the Corporation may call for redemption and redeem annually, through the operation of non-cumulative optional sinking funds, 48,000 9-3/4% preferred shares and 72,000 9.76% preferred shares at $25.00 plus accrued and unpaid dividends.

The purchase requirements are approximately $7 million a year in 1993 and 1994 and $10 million a year from 1995 through 1997.

(2) Notwithstanding all reasonable efforts by the Corporation, as the Corporation in its sole discretion shall determine, to the extent that the Corporation is unable to purchase an aggregate of 90,000 7.60% preferred shares in any calendar year, the Corporation's obligation to purchase shares with respect to such calendar year will be extinguished.

(3) The dividend rate on these shares was 9-1/8% until February 15, 1990. After this date the dividend rate is 70% of the average Canadian prime interest rate. For 1992 this resulted in a dividend rate of 5.32% or $1.33 per share (1991 - 7.64% or $1.91 per share, 1990 - 9.81% or $2.45 per share). These shares were added to the Alberta Gas Transmission Division's deemed cost-of-service capitalization effective January 1, 1992.

Notwithstanding all reasonable efforts by the Corporation, as the Corporation in its sole discretion shall determine, to the extent that the Corporation is unable to purchase the required number of these Variable Rate Preferred Shares in any 12-month period, the Corporation's obligation to purchase shares with respect to such 12-month period is extinguished.

(d) Purchases

During 1992 the Corporation purchased 240,519 shares for redemption or cancellation (1991 – 254,100 shares; 1990 – 367,701 shares).

10. Convertible Debentures

The convertible debentures, which are unsecured and mature on February 15, 2008, pay a minimum interest rate of 6-1/4%. They are convertible, at the holder's option, until February 15, 2008, into common shares of the Corporation at an initial conversion price of $10.70 per share, subject to adjustment in certain events, which equates to 14,018,692 common shares. The debentures are redeemable at par after February 15, 1993, and at any time prior to this date, at 105% of par if at least 85% of the original principal amount of the debentures has been converted.

The convertible debentures have been reported under the caption "Convertible Debentures and Common Shareholders' Equity" on the balance sheet. At its option at maturity, the Corporation may issue common shares in respect of the principal amount of the outstanding debentures at then-prevailing market prices. The Corporation anticipates that the convertible debentures will ultimately be converted into common shares.

11. Common Shares and Warrants

(a) Authorized

Unlimited number of voting common shares without par value.
5,000,000 warrants.

(b) Issued and outstanding

	Number of Shares and Warrants			Millions of Dollars		
December 31	**1992**	1991	1990	**1992**	1991	1990
Common shares	**406,280,031**	325,660,912	299,625,333	**$ 1,927**	$ 1,831	$ 1,622
Warrants	**38,875**	88,275	114,325	**1**	1	2
				$ 1,928	$ 1,832	$ 1,624

(c) Common shares issued

Changes in the common share capital for the three years ended December 31, 1992, are summarized as follows:

	Number of Shares	*Common Share Capital (millions of dollars)*
December 31, 1989	298,704,149	$ 1,615
For cash under the dividend reinvestment and share purchase plan	840,694	7
On exercise of 4,330 warrants	12,990	–
For cash on exercise of stock options (at prices ranging from $5.85 to $6.58)	67,500	–
	921,184	7
December 31, 1990	299,625,333	1,622
For cash	25,000,000	201
For cash under the dividend reinvestment and share purchase plan	840,283	7
On exercise of 26,050 warrants	78,150	–
For cash on exercise of stock options (at prices ranging from $5.97 to $8.53)	117,146	1
	26,035,579	209
December 31, 1991	325,660,912	1,831
For cash	80,000,000	574
For cash under the dividend reinvestment and share purchase plan	460,813	4
On exercise of 49,400 warrants	148,200	1
For cash on exercise of stock options (at $6.82)	10,106	–
Transfer to reinvested earnings(1)	–	(483)
	80,619,119	96
December 31, 1992	406,280,031	$ 1,927

(1) In 1992, pursuant to a resolution of its common shareholders, the Corporation reduced the stated common capital by $483 million in order to eliminate the deficit as at December 31, 1991.

(d) Common shares reserved for future issue

December 31 (number of shares)	**1992**	1991	1990
Under the dividend reinvestment and share purchase plan	**2,866,390**	3,327,203	4,167,486
For exercise of convertible debentures	**14,018,692**	14,018,692	14,018,692
For exercise of warrants	**116,625**	264,825	342,975
Under the incentive stock option plan (1982), options are outstanding to officers and employees to purchase 12,871,725 common shares at prices ranging from $6.82 to $12.67 per share (1991 – 11,076,475 shares at prices ranging from $6.82 to $12.67 per share; 1990 – 8,595,850 shares at prices ranging from $5.97 to $12.67 per share) with expiration dates between December 8, 1993 to April 20, 1999, and 8,618,275 common shares are reserved but unallocated (1991 – 2,259,975 shares; 1990 – 4,857,600 shares)	**21,490,000**	13,336,450	13,453,450
	38,491,707	30,947,170	31,982,603

(e) Common share dividends

Common share dividends declared amounted to $95 million or 24 cents per share in 1992, $120 million or 38 cents per share in 1991 and $155 million or 52 cents per share in 1990.

(f) Warrants

The warrants were issued in 1986 at a price of $15.00 per warrant. Each warrant entitles the holder at his or her option to obtain on exercise three common shares at any time before July 31, 1996, or either one no par value first preferred share or one no par value second preferred share from August 1, 1991 to July 31, 1996. The Corporation may purchase for cancellation any or all of the warrants outstanding in the markets.

12. Cumulative Translation Adjustment

The cumulative translation adjustment represents the net unrealized foreign currency translation gain on the Corporation's net investment in self-sustaining foreign operations. Details of changes in the account are as follows:

Year Ended December 31 (millions of dollars)	**1992**	1991	1990
Beginning of year	**$ 13**	$ 20	$ 30
Effect of changes in exchange rates during the year	**24**	(7)	21
Realized gain on sale of assets	**–**	–	(31)
End of year	**$ 37**	$ 13	$ 20

13. Gain [Loss] on Investments

Components of the gain (loss) on investments and the related income effect, net of income taxes, are provided below:

(millions of dollars)	*Per Statement Caption*	*Net Income Effect*
Year ended December 31, 1991	$ (8)	$ (5)
Year ended December 31, 1990		
Sale of rubber business	$ 66	$ 35
Sale of Grove Italia S.p.A.	30	30
Expensing of petrochemical start-up costs	(31)	(19)
Sale of geomembrane business	(14)	(8)
Other	(37)	(24)
	$ 14	$ 14

On October 1, 1990, the Corporation sold its rubber business for proceeds of approximately $1.25 billion, plus the assumption of approximately $100 million of debt. Proceeds were used to repay long-term debt. The Corporation's consolidated results for 1990 included revenue of $641 million and operating income of $26 million from the rubber business.

14. Restructuring Charge

During 1991, NOVA reduced and decentralized senior management to facilitate concentration on NOVA's two major businesses (pipelines and chemicals), closed certain non-competitive chemicals plants and launched a comprehensive strategic review of each of the Corporation's chemicals businesses. As a result of these restructuring steps and expectations that chemical prices would remain depressed for some time, NOVA recorded an after-tax charge against earnings of $675 million. The components of this charge and the related income effect, net of income taxes, are provided below:

(millions of dollars)	*Per Statement Caption*	*Net Income Effect*
Write-down of chemicals assets acquired in 1988 through the purchase of Polysar Energy & Chemical Corporation	$ 435	$ 435
Closure of non-competitive chemicals operations, rationalization and restructuring of styrenics businesses, streamlining and reorganization of management, reduction in the carrying value of other assets and an increase in the provision for deferred income tax	246	175
Write-down of Novalta Resources Inc. and an interest in a polypropylene plant, both of which were previously held for sale	69	65
	$ 750	$ 675

15. General and Corporate

Year Ended December 31 (millions of dollars)	1992	1991	1990
Corporate and administration	$ 29	$ 31	$ 34
Discounting of receivables	6	12	17
Other	13	15	7
	$ 48	$ 58	$ 58

16. Income Taxes

Income tax expense varies from amounts computed by applying the Canadian federal and provincial statutory income tax rates to income (loss) from continuing operations before income taxes as shown in the following table:

Year Ended December 31 (millions of dollars)	1992	1991	1990
Statutory income tax rate	44.3%	44.2%	43.8%
Income (loss) from continuing operations before income taxes	$ 214	$ (707)	$ 266
Computed income tax expense (recovery)	$ 95	$ (312)	$ 117
Increase (decrease) in taxes resulting from:			
Lower effective foreign tax rates	(2)	12	(23)
Non-provision of deferred income taxes on cost-of-service operations	(32)	(25)	(23)
Non-deductible depreciation	1	13	23
Manufacturing and processing deduction	(2)	9	1
Non-taxable equity in earnings of affiliates	(11)	(15)	(15)
Non-taxable allowance for funds used during construction	(7)	(10)	(10)
Non-deductible amounts in restructuring charge	–	245	–
Non-taxable investment (gains) losses	–	–	(6)
Other	8	5	(1)
Income tax expense (recovery)	$ 50	$ (78)	$ 63
Current income taxes	$ 16	$ 21	$ 62
Deferred income taxes	34	(99)	1
Income tax expense (recovery)	$ 50	$ (78)	$ 63

For pipeline and certain chemicals operations, charges to customers are based on cost-of-service agreements. These charges include a recovery of income taxes. NOVA records income tax expense on these operations equal to amounts recoverable under the agreements and therefore, there is no effect on net income. Under some agreements the income taxes that are recoverable are limited to current taxes payable. Accordingly, the 1992 provision for income taxes excludes deferred income tax expense of $32 million (1991 – $25 million, 1990 – $23 million). Cumulative unrecorded deferred income taxes payable amounted to $368 million at December 31, 1992 (1991 – $336 million, 1990 – $311 million).

The principal timing difference in calculating deferred income taxes, for both cost-of-service and non-cost-of-service operations, relates to deductions for tax purposes in respect of plant, property and equipment in excess of depreciation provided for in the accounts.

17. Changes in Non-Cash Working Capital

Year Ended December 31 (millions of dollars)	**1992**	1991	1990
Receivables	**$ (65)**	$ 57	$ 88
Inventories	**6**	64	90
Accounts payable and accrued liabilities	**3**	(93)	(133)
Changes in non-cash working capital	**(56)**	28	45
Reclassification and other items not having a cash effect:			
Write-down of non-cash working capital items included in restructuring charge	**–**	(47)	–
Non-cash working capital disposed of on sale of affiliates	**–**	–	(120)
Other items	**38**	18	35
Changes in non-cash working capital having a cash effect	**$ (18)**	$ (1)	$ (40)
These changes relate to the following activities:			
Operating	**$ (22)**	$ 23	$ (24)
Investing	**–**	(3)	(16)
Financing	**4**	(21)	–
	$ (18)	$ (1)	$ (40)

Interest paid during 1992 amounted to $340 million (1991 – $372 million, 1990 – $453 million). Income taxes paid during 1992 amounted to $7 million (1991 – $50 million, 1990 – $43 million).

18. Pension Plans

The Corporation has pension plans covering substantially all employees. Pensions at retirement are related to years of service and remuneration during the last years of employment and are partially indexed to inflation. Actuarial reports are prepared annually by independent actuaries for accounting and funding purposes. Funding by the Corporation is made in accordance with the projected unit credit method and applicable legislation. Assets of the plan consist primarily of publicly traded equity and fixed income securities. In 1992 the assumed future rates of return on assets and discount rates used to determine the estimated projected benefit obligations of the plans was 9% (1991 – 9%, 1990 – 9%). In 1992 the assumed long-term salary and wage, excluding merit, escalation rates averaged 5.5% (1991 – 5.5%, 1990 – 5.5%). As of December 31, 1992, the discount rate was changed to 8% with a corresponding change in the long-term salary and wage escalation rates to 4.5%.

Net pension expense consisted of the following:

Year Ended December 31 (millions of dollars)	**1992**	1991	1990
Current service costs	**$ 19**	$ 12	$ 16
Interest cost on projected benefit obligations	**31**	25	33
Return on assets	**(32)**	(31)	(39)
Net total of other components	**(2)**	(5)	(6)
	16	1	4
Amounts attributable to cost-of-service contracts	**(5)**	3	4
Net pension expense	**$ 11**	$ 4	$ 8

The status of the pension plans is as follows:

December 31 (millions of dollars)	1992	1991	1990
Estimated obligations			
Projected benefits based on service to date and present remuneration	$ 265	$ 212	$ 195
Additional amounts related to projected salary and wage increases	139	84	78
Total projected benefit obligations	404	296	273
Assets available at adjusted market value	393	360	342
Excess (deficiency) of assets over projected benefit obligations	$ (11)	$ 64	$ 69

The excess in 1991 was eliminated in 1992 principally because of two factors. The plans were amended to reflect increasing Revenue Canada limits on the maximum pension payable from a registered pension plan. Assumptions used to determine the pension obligations were revised to better reflect the future economic outlook.

The adjusted market value of plan assets is determined on a four-year moving average basis. Based on year-end market values, the Corporation's pension plan assets at December 31, 1992 amounted to $384 million (1991 – $362 million, 1990 – $337 million).

19. Contingencies and Commitments

(a) The Corporation leases office space, data processing and transportation equipment under various operating leases. The minimum lease payments, net of recoveries under cost-of-service operations and sub-leases, are approximately $44 million in 1992, $42 million in 1993, $33 million in 1994, $29 million in 1995, $29 million in 1996, $27 million in 1997 and an aggregate of $28 million in subsequent years.

(b) The agreement for the sale and leaseback of the Corporation's head office building provides that, on or after January 1, 1995, the Corporation offer to purchase the property for $157 million at the expiration of the lease on December 31, 1997.

(c) In addition to the future site cleanup and restoration costs which have been accrued (see Notes 7 and 8), costs will be incurred in the future for plant sites when they are sold or no longer used in the Corporation's operations. The liability with respect to these costs is not currently determinable.

(d) Various lawsuits and claims are pending by and against the Corporation. It is the opinion of management that final determination of these claims will not materially affect the financial position or operating results of the Corporation.

(e) The Canadian Association of Petroleum Producers ("CAPP") has requested that the Public Utilities Board of Alberta ("PUB") review NOVA's Alberta Gas Transmission Division ("AGTD") 1993 rate of return and deemed capital structure. CAPP has requested that the PUB set AGTD's rate of return to reflect an 11.25% return on a deemed common equity component of 25%. A hearing is scheduled to begin in June 1993 and a decision is expected by the fall of 1993.

20. Segmented Information on Continuing Operations

The principal business segments of the Corporation are as follows:

Pipelines – transportation of natural gas by pipeline, and related activities.

Chemicals – production and marketing activities for various petrochemicals and plastics products and the ownership and management of natural gas reserves. NOVA's rubber business, which was sold on October 1, 1990, is reported in the 1990 financial statements under this segment.

(a) Financial information by business segment

Year Ended December 31 (millions of dollars)	**1992**	1991	1990
Revenue			
Pipelines	$ 877	$ 821	$ 683
Chemicals	2,150	2,253	3,297
	$ 3,027	$ 3,074	$ 3,980
Operating income			
Pipelines	$ 406	$ 365	$ 279
Chemicals	130	29	373
	$ 536	$ 394	$ 652
Equity in earnings of affiliates			
Pipelines	$ 22	$ 22	$ 21
Chemicals	17	11	10
Other businesses	–	–	3
	$ 39	$ 33	$ 34
Identifiable assets			
Pipelines	$ 3,790	$ 3,275	$ 2,833
Chemicals	2,373	2,440	2,933
Corporate and assets held for sale	26	87	288
	$ 6,189	$ 5,802	$ 6,054
Plant, property and equipment additions			
Pipelines	$ 451	$ 555	$ 717
Chemicals	79	111	216
	$ 530	$ 666	$ 933
Depreciation and depletion			
Pipelines	$ 141	$ 121	$ 96
Chemicals	148	179	212
	$ 289	$ 300	$ 308

(b) Financial information by geographic area, based on location of the manufacturing facilities

Year Ended December 31 (millions of dollars)	**1992**	1991	1990
Revenue			
Canada	$ 2,755	$ 2,773	$ 3,058
United States	272	301	571
Other	–	–	351
	$ 3,027	$ 3,074	$ 3,980
Operating income			
Canada	$ 546	$ 410	$ 549
United States	(10)	(16)	(20)
Other	–	–	123
	$ 536	$ 394	$ 652
Identifiable assets			
Canada	$ 5,836	$ 5,460	$ 5,798
United States	307	342	256
Other	46	–	–
	$ 6,189	$ 5,802	$ 6,054

(c) Financial information on cost-of-service/non-cost-of-service operations

Year Ended December 31 (millions of dollars)	1992	1991	1990
Revenue			
Cost-of-service	$ 1,198	$ 1,163	$ 1,035
Non-cost-of-service	1,829	1,911	2,945
	$ 3,027	$ 3,074	$ 3,980
Operating income (loss)			
Cost-of-service	$ 488	$ 455	$ 375
Non-cost-of-service	48	(61)	277
	$ 536	$ 394	$ 652
Contribution to net income (loss) from continuing operations			
Cost-of-service			
Operating income	$ 488	$ 455	$ 375
Interest expense	(232)	(224)	(189)
Allowance for funds used during construction	17	23	23
Equity in earnings of affiliates	32	33	33
Income taxes	(89)	(78)	(57)
	216	209	185
Non-cost-of-service			
Operating income (loss)	$ 48	$ (61)	$ 277
Interest expense	(98)	(117)	(210)
Equity in earnings of affiliates	7	–	1
Gain (loss) on investments	–	(8)	14
Restructuring charge	–	(750)	–
General and corporate	(48)	(58)	(58)
Income taxes	39	156	(6)
	(52)	(838)	18
Net income (loss) from continuing operations	$ 164	$ (629)	$ 203
Identifiable assets			
Cost-of-service	$ 4,144	$ 3,790	$ 3,302
Non-cost-of-service	2,045	2,012	2,752
	$ 6,189	$ 5,802	$ 6,054
Plant, property and equipment additions			
Cost-of-service	$ 474	$ 583	$ 746
Non-cost-of-service	56	83	187
	$ 530	$ 666	$ 933
Depreciation			
Cost-of-service	$ 198	$ 176	$ 148
Non-cost-of-service	91	124	160
	$ 289	$ 300	$ 308

(d) Export sales from the Corporation's Canadian operations

Year Ended December 31 (millions of dollars)	1992	1991	1990
United States	$ 484	$ 535	$ 815
Other	243	281	379
	$ 727	$ 816	$ 1,194

21. Reconciliation to Accounting Principles Generally Accepted in the United States of America

The consolidated financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian basis") which conform to accounting principles generally accepted in the United States ("U.S. basis") in most areas. The following reconciliations reflect the differences in these accounting principles, where applicable.

Year Ended December 31 (millions of dollars, except for per share data)	**1992**	1991	1990
Net income (loss) from continuing operations in accordance with Canadian basis	$ **164**	$ (629)	$ 203
Add (deduct) adjustments for:			
Foreign currency translation[a]	**–**	12	(8)
Inventory valuation adjustment[b]	**2**	9	–
Other	**1**	2	(2)
Net income (loss) from continuing operations in accordance with U.S. basis	**167**	(606)	193
Discontinued operation in accordance with Canadian basis	**–**	(294)	(18)
Foreign currency translation[a]	**–**	3	(8)
Discontinued operation in accordance with U.S. basis	**–**	(291)	(26)
Net income (loss) in accordance with U.S. basis	**167**	(897)	167
Preferred share dividend entitlement	**(12)**	(14)	(18)
Net income (loss) to common shareholders in accordance with U.S. basis	$ **155**	$ (911)	$ 149
Net income (loss) from continuing operations per common share in accordance with U.S. basis			
– Primary	$ **0.40**	$ (1.88)	$ 0.57
– Fully diluted	$ **0.40**	$ (1.88)	$ 0.57
Net income (loss) per common share in accordance with U.S. basis			
– Primary	$ **0.40**	$ (2.77)	$ 0.49
– Fully diluted	$ **0.40**	$ (2.77)	$ 0.49
Reinvested earnings (deficit) in accordance with U.S. basis[c]	$ **44**	$ (499)	$ 532

(a) United States accounting principles require that long-term debt payable in foreign currencies be translated at the rates of exchange prevailing on the balance sheet date with the resulting translation gains or losses to be included in the determination of net income for the period. Canadian accounting principles require that these gains or losses be deferred and amortized over the life of the long-term debt.

(b) United States accounting principles require an allocation of fixed production overhead to inventory. Canadian accounting principles allow the expensing of fixed production overhead as a period cost, thereby excluding these costs from inventory.

(c) Reinvested earnings (deficit) in accordance with the U.S. basis of accounting reflects the cumulative effect of adjustments to the Corporation's earnings to December 31, 1992, for significant differences between the Canadian and United States bases of accounting.

ADDITIONAL U.S. DISCLOSURES

(a) Postretirement benefits other than pensions:

United States accounting principles require the adoption of Statement of Financial Accounting Standards No. 106 ("FAS 106") "Employer's Accounting for Postretirement Benefits Other Than Pensions" effective January 1, 1993, for NOVA's U.S. plans and January 1, 1995, for NOVA's non-U.S. plans. FAS 106 will require companies to accrue the expected costs of providing postretirement benefits during the periods in which the employees render service. NOVA currently expenses these costs as they are incurred (costs incurred in 1992 were approximately $1 million). For Canadian and U.S. accounting purposes the Corporation will be adopting FAS 106 prospectively effective January 1, 1993. As a result of adopting this standard, net income will be reduced by approximately $2 million in 1993. The accumulated unrecorded postretirement benefit obligation as at January 1, 1993, was approximately $20 million,

which will be amortized over the estimated average remaining service lives of the employees.

(b) Income taxes:
FAS 109 "Accounting for Income Taxes" will require companies to recognize deferred tax assets and liabilities for the expected future tax consequences, based on enacted rates, of existing differences between financial reporting and tax reporting bases of assets and liabilities. For U.S. basis accounting purposes the Corporation will be adopting FAS 109 on a prospective basis effective January 1, 1993. This will decrease the deferred income tax liability as at that date and increase net income in 1993 by approximately $10 million. Under FAS 109 the Corporation will also be required to increase its deferred income tax liability and long-term receivables by $368 million as at January 1, 1993. This amount represents unrecorded deferred income taxes to be collected from cost-of-service customers in the future (see Note 16). The provisions of FAS 109 do not conform to the Canadian basis of accounting and accordingly will not be adopted for Canadian basis financial statements.

(c) Fair value of financial instruments:
The following information is provided solely to comply with FAS 107 "Disclosures about Fair Value of Financial Instruments". The Corporation warns readers to use considerable caution in interpreting this information for the following reasons:

i) NOVA's long-term debt at fixed interest rates has been incurred principally for purposes of financing long-term cost-of-service assets. Interest expense on this debt is for the account of NOVA's cost-of-service customers. These customers do not wish to be exposed to potential increases in interest rates and accordingly long-term debt is incurred at fixed interest rates.

ii) In some instances NOVA's unsecured debentures are not redeemable and in other instances it is not economically advantageous to refinance other long-term debt at current interest rates due to prepayment penalties and issuance costs.

iii) Due to the large amount of debt the Corporation has outstanding it is unlikely that there would be sufficient demand in the marketplace to refinance all of NOVA's debt at its current incremental borrowing rate.

iv) Derivative instruments such as interest rate swaps, foreign exchange contracts and options are held for hedging purposes. Any unrealized gains or losses on these instruments will be offset by losses or gains on other financial instruments.

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:

Cash and current bank loans:
The carrying amounts reported in the balance sheet for cash and current bank loans approximate their fair value.

Long-term debt:
The fair value of the Corporation's long-term debt is based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using discounted cash flow analyses, based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

Interest rate swap agreements:
The fair values of these instruments are estimated based on quoted market prices of comparable contracts, adjusted through interpolation where necessary for maturity differences.

The carrying amounts and fair values of the Corporation's financial instruments at December 31, 1992 are as follows:

(millions of dollars)	*Carrying Amount* [(1)]	*Fair Value* [(1)]
Cash	$ 17	$ 17
Current bank loans	$ (222)	$ (222)
Long-term debt		
Cost-of-service	$ (2,425)	$ (2,614)
Non-cost-of-service	$ (462)	$ (480)
Interest rate swap agreements		
Cost-of-service	$ –	$ (27)
Non-cost-of-service	$ –	$ (1)

(1) Asset (liability).

Unaudited Supplemental Financial Information

Summarized Quarterly Financial Information

Three Months Ended		*March 31*		*June 30*		*September 30*		*December 31*	
(millions of dollars, except for share data)		**1992**	1991	**1992**	1991	**1992**	1991	**1992**	1991
Revenue	$	**736**	849	**741**	778	**755**	712	**795**	735
Operating income	$	**113**	140	**134**	75	**142**	93	**147**	86
Net income (loss) from continuing operations before restructuring charge	$	**27**	38	**37**	(6)	**47**	7	**53**	7
Net income (loss) from continuing operations	$	**27**	38	**37**	(6)	**47**	7	**53**	(668)
Discontinued operation – Husky Oil Ltd.	$	**–**	(12)	**–**	(12)	**–**	(265)	**–**	(5)
Net income (loss)	$	**27**	26	**37**	(18)	**47**	(258)	**53**	(673)
Net income (loss) to common shareholders	$	**24**	23	**34**	(22)	**44**	(262)	**50**	(676)
Average number of common shares outstanding (millions)		**349**	300	**391**	300	**406**	321	**406**	326
Data per common share									
Net income (loss) from continuing operations[1]	$	**0.07**	0.12	**0.09**	(0.04)	**0.11**	0.01	**0.12**	(2.06)
Net income (loss)[1]	$	**0.07**	0.08	**0.09**	(0.08)	**0.11**	(0.82)	**0.12**	(2.07)
Market price									
Toronto Stock Exchange									
High	$	**8-7/8**	9-1/2	**8-7/8**	9-1/4	**9-1/8**	8-3/8	**9-1/8**	8-1/8
Low	$	**6-7/8**	8-1/4	**7-1/8**	7-3/4	**8-1/8**	7-3/8	**8**	6-3/8
New York Stock Exchange									
High ($U.S.)	$	**7-3/8**	8-1/4	**7-1/4**	8	**7-5/8**	7-1/4	**7-1/4**	7-1/8
Low ($U.S.)	$	**6**	7-1/8	**6**	6-3/4	**6-3/4**	6-3/8	**6-3/8**	5-5/8
Dividends paid	$	**0.06**	0.13	**0.06**	0.13	**0.06**	0.13	**0.06**	0.06

(1) The net income per common share is calculated based on the average number of shares outstanding during each period. As a result, the individual quarters may not add to the total for the year.

Summarized Financial Information on Principal Segments

(millions of dollars)	Pipelines 1992	Pipelines 1991	Pipelines 1990	Chemicals 1992	Chemicals 1991	Chemicals 1990
Balance sheet						
Current assets	$ 295	$ 171	$ 177	$ 469	$ 475	$ 590
Investments and other assets	220	144	158	104	105	162
Plant, property and equipment	3,275	2,960	2,498	1,800	1,860	2,181
Total assets	3,790	3,275	2,833	2,373	2,440	2,933
Current liabilities	208	174	148	435	639	658
Long-term debt						
Cost-of-service	2,056	1,912	1,573	297	358	377
Non-cost-of-service(1)	–	1	3	195	237	247
Other deferred credits	38	43	31	122	192	240
Total liabilities	2,302	2,130	1,755	1,049	1,426	1,522
Capital investment	$ 1,488	$ 1,145	$ 1,078	$ 1,324	$ 1,014	$ 1,411
Income statement						
Revenue	$ 877	$ 821	$ 683	$ 2,150	$ 2,253	$ 3,297
Operating expenses	(330)	(335)	(308)	(1,872)	(2,045)	(2,712)
Depreciation	(141)	(121)	(96)	(148)	(179)	(212)
Operating income	406	365	279	130	29	373
Interest expense(2)	(214)	(202)	(159)	(116)	(138)	(240)
Other income (deductions)	34	46	43	(21)	(48)	(52)
Income (loss) before income taxes and restructuring charge	226	209	163	(7)	(157)	81
Income taxes(2)	(59)	(49)	(31)	9	49	(53)
Net income before restructuring charge(3)	$ 167	$ 160	$ 132	$ 2	$ (108)	$ 28
Cash flow						
Operating activities						
From operations(2)	$ 279	$ 270	$ 184	$ 141	$ (10)	$ 286
Changes in non-cash working capital items	(24)	(32)	(68)	2	43	(61)
	255	238	116	143	33	225
Investing activities						
Plant, property and equipment additions	(451)	(555)	(717)	(79)	(111)	(216)
Other	(37)	20	22	18	–	(46)
	(488)	(535)	(695)	(61)	(111)	(262)
Cash flow before financing activities	$ (233)	$ (297)	$ (579)	$ 82	$ (78)	$ (37)

(1) Excludes an allocation of NOVA's corporate long-term debt of $258 million in 1992, $548 million in 1991, and $700 million in 1990.

(2) Includes an allocation of NOVA's corporate amounts.

(3) Excludes discontinued operation and unallocated corporate and other items. Corporate and other items represented a net loss of $5 million in 1992, a net loss of $6 million in 1991 and net income of $43 million in 1990.

Non-Consolidated Balance Sheet

December 31 (millions of dollars)	**1992**	1991	1990
Net assets			
Alberta Gas Transmission Division	**$ 3,322**	$ 2,982	$ 2,494
Investments			
Chemicals	**1,172**	909	1,487
Pipelines	**232**	161	208
Husky Oil Ltd.	**–**	–	627
	1,404	1,070	2,322
Corporate and other	**(40)**	85	82
	$ 4,686	$ 4,137	$ 4,898
Long-term debt(1)			
Cost-of-service	**$ 2,067**	$ 1,929	$ 1,591
Non-cost-of-service	**265**	507	744
	2,332	2,436	2,335
Preferred shares – redeemable	**182**	189	195
Convertible debentures and common shareholders' equity	**2,172**	1,512	2,368
	$ 4,686	$ 4,137	$ 4,898

(1) Includes current portion.

Non-Consolidated Capitalization

December 31 (millions of dollars)	**1992**		1991		1990	
		%		%		%
Cost-of-service						
Long-term debt(1)	**$ 2,067**	**62**	$ 1,929	65	$ 1,591	64
Preferred shares	**182**	**6**	89	3	95	4
Common equity	**1,073**	**32**	964	32	808	32
	$ 3,322		$ 2,982		$ 2,494	
Non-cost-of-service						
Long-term debt(1)	**$ 265**	**19**	$ 507	44	$ 744	31
Preferred shares	**–**	**–**	100	9	100	4
Common equity(2)	**1,099**	**81**	548	47	1,560	65
	$ 1,364		$ 1,155		$ 2,404	
Total						
Long-term debt(1)	**$ 2,332**	**50**	$ 2,436	59	$ 2,335	48
Preferred shares	**182**	**4**	189	5	195	4
Common equity(2)	**2,172**	**46**	1,512	36	2,368	48
	$ 4,686		$ 4,137		$ 4,898	

(1) Includes current portion.
(2) Includes convertible debentures.

Six-Year Financial Review

(millions of dollars, except per share amounts, ratios and miscellaneous data)		1992	1991	1990(1)	1989	1988(2)	1987
Operating results							
Revenue	$	**3,027**	3,074	3,980	4,109	3,143	1,682
Operating income	$	**536**	394	652	741	897	444
Net income (loss) from continuing operations before restructuring charge	$	**164**	46	203	218	441	186
Net income (loss) from continuing operations	$	**164**	(629)	203	218	441	186
Net income (loss)	$	**164**	(923)	185	186	396	225
Net income (loss) to common shareholders	$	**152**	(937)	167	168	374	176
Total assets	$	**6,189**	5,802	6,681	7,590	7,646	4,119
Capitalization							
Long-term debt(3) – cost-of-service	$	**2,425**	2,347	2,029	1,615	1,387	1,273
– non-cost-of-service	$	**462**	815	963	1,941	2,792(9)	785
Preferred shares – cost-of-service	$	**182**	89	95	104	116	125
– non-cost-of-service	$	**–**	100	100	100	100	204
Common equity(4)	$	**2,172**	1,512	2,368	2,359	1,855	1,212
Total capitalization	$	**5,241**	4,863	5,555	6,119	6,250	3,599
Cash flow data							
Funds from continuing operations	$	**451**	223	509	591	848	463
Spending on plant, property and equipment	$	**530**	666	933	729	439	200
Capital issued – long-term debt	$	**727**	714	806	441	1,646	218
– common and preferred equity	$	**568**	205	7	454	534	31
Dividends – preferred shareholders	$	**12**	14	18	18	22	49
– common shareholders	$	**95**	120	155	142	99	77
Data per common share							
Net income (loss) from continuing operations							
– basic	$	**0.39**	(2.05)	0.62	0.76	1.83	0.74
– fully diluted	$	**0.39**	(2.05)	0.61	0.75	1.74	0.71
Net income (loss) – basic	$	**0.39**	(2.99)	0.56	0.64	1.63	0.95
– fully diluted	$	**0.39**	(2.99)	0.55	0.63	1.54	0.88
Dividends paid	$	**0.24**	0.45	0.52	0.50	0.42	0.40
Common equity at year-end(5)	$	**5.17**	4.45	7.54	7.54	7.14	5.36
Market price (TSE) – high	$	**9-1/8**	9-1/2	9-3/8	14	14-3/4	11-1/2
– low	$	**6-7/8**	6-3/8	6-5/8	8-3/8	8-3/4	5-5/8
– close	$	**8-3/4**	7-1/4	8-5/8	8-5/8	12	10
Ratios							
Return on average common equity	%	**8.3**	*	7.1	8.0	24.4	20.4
Dividend payout of earnings	%	**62.5**	*	92.8	84.5	26.5	43.8
Dividend yield(6)	%	**2.7**	6.2	6.0	5.8	3.5	4.0
Price/earnings(6)		**22.4**	*	15.4	13.5	7.4	10.5
Long-term debt to common equity		**1.3:1**	2.1:1	1.3:1	1.5:1	2.3:1	1.7:1
Funds flow coverage of financial charges and preferred dividends(7)		**2.3**	1.5	2.1	2.2	3.4	2.6
Miscellaneous data							
Common shares outstanding – year-end (millions)		**406**	326	300	299	245	211
– average (millions)		**388**	313	299	261	229	185
Common shareholders at year-end (thousands)		**39**	41	44	42	39	37
Employees at year-end (thousands)(8)		**6.3**	6.6	9.8	13.1	11.3	7.0

**Not applicable.*
(1) Sale of rubber business.
(2) Acquisition of Polysar Energy & Chemical Corporation.
(3) Includes current portion.
(4) Includes convertible debentures and warrants.
(5) Calculation includes the effect from conversion of the convertible debentures and warrants.
(6) Calculated using year-end market prices.
(7) Funds from continuing operations before financial charges divided by total financial charges and preferred share dividend entitlement.
(8) Permanent employees of NOVA, its subsidiaries and affiliates.
(9) Includes $240 million of subsidiary term preferred shares.

SHAREHOLDER INFORMATION

For further information, shareholders are invited to telephone NOVA's toll-free number: 1-800-661-8686.

Share Issues

NOVA's widely held and actively traded common shares are listed on the Toronto, Montreal, Alberta, New York and London stock exchanges and on Swiss stock exchanges in Geneva, Zurich and Basle. At December 31, 1992, approximately 406 million common shares were outstanding and there were some 39,000 registered holders of common shares.

In addition, five preferred share issues were outstanding. These issues are listed on the Toronto, Montreal (7.60 per cent and Variable Rate only) and Alberta stock exchanges.

Share Designations

NOVA's share issues are designated in newspaper listings as "Nova" or a variation of the Corporation's full legal name. NOVA's preferred shares and warrants are designated as follows:

Nova	*E*	*p*	*7-3/4%*
Nova	*F*	*p*	*9-3/4%*
Nova	*G*	*p*	*9.76%*
Nova	*H*	*p*	*7.60%*
Nova	*O*	*p*	*Variable Rate*
Nova	*W*		*1996*

"NVA" is the symbol assigned to NOVA by stock exchanges in Canada and the New York Stock Exchange.

Dividend Reinvestment

NOVA's Dividend Reinvestment and Share Purchase Plan provides a convenient method for shareholders in Canada and the United States to acquire common shares by reinvestment of dividends on all or some of their NOVA common and preferred shares without brokerage or administrative fees.

Additional information on the plan may be obtained from the transfer agent:

The R-M Trust Company
600 The Dome Tower
333 Seventh Avenue S.W.
Calgary, Alberta, T2P 2Z1

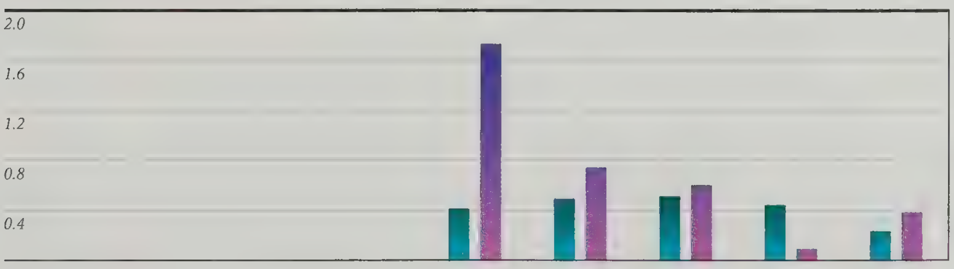
Notice to Participants in the Dividend Reinvestment and Share Purchase Plan

A participant or the personal representative of a participant in the Dividend Reinvestment and Share Purchase Plan of NOVA Corporation of Alberta may withdraw from the plan, in accordance with the terms thereof, at any time by notifying The R-M Trust Company in writing.

Non-Resident Investors

Dividends paid to shareholders outside of Canada are subject to Canadian non-resident withholding tax, generally at the rate of 15 per cent for the United States and other countries where Canadian tax treaties apply, and 25 per cent for non-treaty countries. Certain exemptions or refunds related to the tax may be available to residents of the United States. Shareholders should consult their tax advisors.

Dividends Paid and Net Income Per Common Share

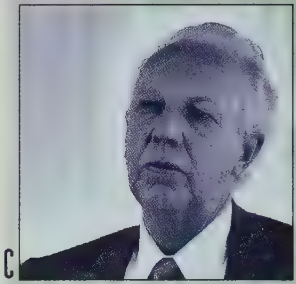


(dollars)	*1988*	*1989*	*1990*	*1991*	*1992*
Dividends Paid	*0.42*	*0.50*	*0.52*	*0.45*	*0.24*
Net Income from Continuing Operations	*1.74*	*0.75*	*0.61*	*0.10**	*0.39*

**before restructuring charge*

BOARD OF DIRECTORS

B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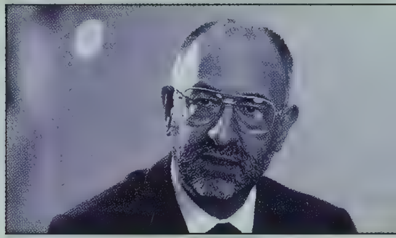

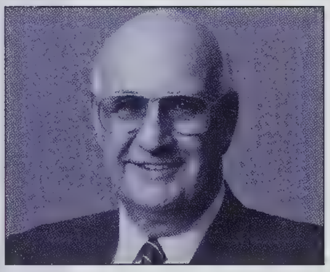
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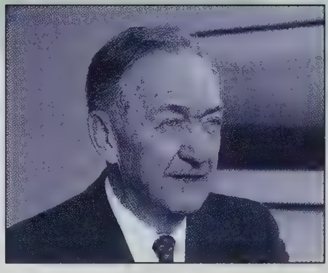
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At the February 26, 1993 board meeting, J.M. (Jack) MacLeod was appointed to NOVA's board of directors. Mr. MacLeod has a wealth of experience in the energy industry, including 38 years with Shell Canada Limited. Mr. MacLeod served as Shell Canada's president and chief executive officer from May 1985 until his recent retirement.

The Hon. Willard Z. Estey has announced his intention to retire from NOVA's board of directors following the Corporation's Annual Meeting on April 23, 1993. "Bud" Estey has been a director since 1988 and has made an important contribution to the direction of NOVA. His counsel will be missed.

A ► ***Hon. John B. Aird, O.C., Q.C.,*** *a director since 1988, is honorary chairman and senior partner in the law firm Aird & Berlis of Toronto. He is chancellor emeritus of the University of Toronto and Wilfrid Laurier University, and Third Visitor, Massey College, University of Toronto. Mr. Aird, who served as Lieutenant Governor of the Province of Ontario between 1980 and 1985, is also a director of several Canadian companies. He resides in Toronto.*

B ► ***Dr. F. Peter Boer*** *was appointed a director in February 1991. He is executive vice president and chief technical officer of W.R. Grace & Co., with responsibilities for research and development, engineering, business development, environment, health and safety. Dr. Boer is chairman of the Evaluation Committee for the National Medal of Technology, United States Department of Commerce, and serves on several other governmental and university advisory bodies. He resides near Boca Raton, Florida.*

C ► ***Ronald B. Coleman*** *has been a director since 1987. He resigned from his position as senior vice president of a major oil company in 1979 to pursue a private career as an oil and gas consultant. Mr. Coleman is president, Dominion Equity Resource Fund, R.B. Coleman Consulting Co. Ltd. and chairman, Landmark Corporation. He is also a director of the Maritime Life Assurance Company and Nova Scotia Resources Ltd. He resides in Calgary.*

D ► ***William H. Comrie*** *joined NOVA's board in May 1986. He is chairman of The Brick Warehouse Corporation, a Canadian company engaged in the retail marketing of furnishings, appliances and electronics. Mr. Comrie, who resides in Edmonton, is owner of the B.C. Lions Football Team.*

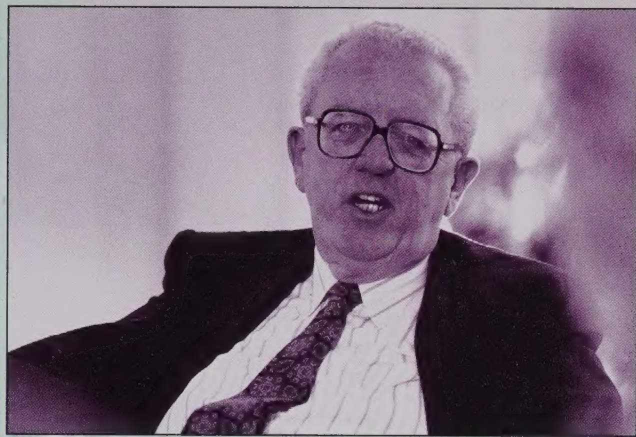
E ► ***Sir J. Graham Day*** *was appointed a director in 1990. He graduated in law from Dalhousie University, Nova Scotia, in 1956. He is currently chairman of Cadbury Schweppes plc and PowerGen plc. Sir Graham is a director of several companies in the United Kingdom and Canada, including The Bank of Nova Scotia and Crownx Inc. He resides in London, England.*

F ► ***Hon. Willard Z. Estey, C.C., Q.C.,*** *a director since 1988, is counsel to the law firm McCarthy Tétrault. Prior to April 1988, he was a Justice of the Supreme Court of Canada. Mr. Estey was appointed chancellor of Wilfrid Laurier University in 1990. He resides in Toronto.*

G ► ***Richard F. Haskayne*** *joined NOVA's board in 1991 and now serves as its chairman. He entered the oil and gas industry in 1960 and has held numerous executive positions until his retirement as chairman, president and chief executive officer of Interhome Energy Ltd. in 1991. Mr. Haskayne is a director of several Canadian companies and resides in Calgary.*

H ► ***J. Joseph Healy*** *has been a director since 1977. He is president of Healy Motors Limited, of Edmonton, where he resides. Mr. Healy also serves on the boards of Healy Truck & Body Centre Ltd., Car Leasing (Alberta) Ltd. and Burnside Holdings Ltd.*

H



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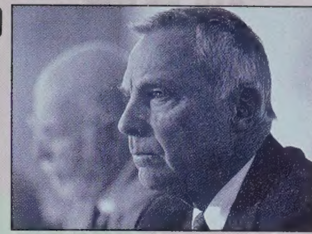

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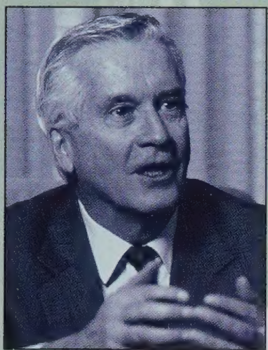

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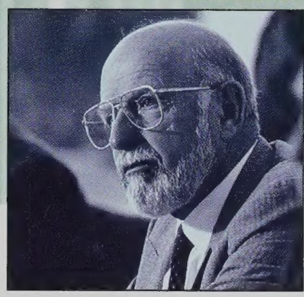

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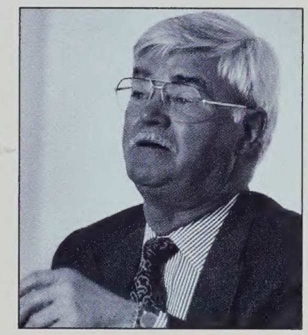

N

I ► ***Harley N. Hotchkiss*** *has been a director since 1979. He resides in Calgary and is president and a director of Spartan Resources Ltd. and other private companies investing in oil and gas, real estate and agriculture. Mr. Hotchkiss also serves on the boards of several companies including The Calgary Flames Hockey Club Ltd.*

J ► ***W. Norman Kissick*** *was appointed a director on February 28, 1992. He joined Union Carbide Canada Ltd. in 1952 and held several executive positions prior to retiring as its chairman and chief executive officer in 1991. Mr. Kissick also serves on the boards of Canadian Pacific Forest Products Ltd. and The Toronto Dominion Bank. He resides in Agincourt, Ontario.*

K ► ***Harold P. Milavsky, F.C.A.,*** *was appointed a director in 1988. He is a director of Trizec Corporation Ltd. and chairman of the board of Carena Developments Ltd. and Bowtex Energy (Canada) Corporation. He is also a director of several Canadian and U.S. companies. Mr. Milavsky resides in Calgary.*

L ► ***J.E. (Ted) Newall*** *joined NOVA and its board in 1991 and is president and chief executive officer of the Corporation. Mr. Newall joined Du Pont Canada Inc. in 1958 and held several managerial and executive positions until he retired in 1991 as chairman and chief executive officer of Du Pont Canada and senior vice president, Agricultural Products, of E.I. du Pont de Nemours & Co. Mr. Newall, who resides in Calgary, is also a director of several Canadian companies.*

M ► ***Dr. Nicholas Pappas*** *was appointed a director on February 28, 1992. He is president and chief operating officer of Rollins Environmental Services Inc., of Wilmington, Delaware. Prior to joining Rollins, Dr. Pappas held several executive positions in E.I. du Pont de Nemours & Co. until his retirement as executive vice president in 1990. He resides in Centerville, Delaware.*

N ► ***Robert L. Pierce, Q.C.,*** *has been a director since 1977. He is a senior vice president of NOVA, chairman and chief executive officer of Foothills Pipe Lines Ltd., and chairman of Pan-Alberta Gas Ltd. Mr. Pierce also serves on the boards of several Canadian companies and organizations. He resides in Calgary.*

O ► ***Janice G. Rennie*** *was appointed a director in 1991. She joined Princeton Developments Ltd. in 1985 and held several executive positions leading to her appointment as president of Princeton's Prairie and Northwest Territories Region in 1991. Mrs. Rennie is also president of Bellanca Developments Ltd. and was recently appointed a member of the Audit Committee for the Province of Alberta. She resides in Edmonton.*

P ► ***Cedric E. Ritchie, O.C.,*** *was appointed a director of the Corporation on February 28, 1992. He joined The Bank of Nova Scotia in 1945 and held several managerial and executive positions with that organization until his appointment as chairman and chief executive officer and director. In January 1993, Mr. Ritchie resigned as the bank's chief executive officer but continues as chairman of the board and a director. He also serves on the boards of several national and international companies. Mr. Ritchie resides in Don Mills, Ontario.*

Q ► ***Daryl K. Seaman*** *has been a director since 1973 and was non-executive chairman of the board from September 1, 1991 to April 21, 1992. He was co-founder of Bow Valley Industries Ltd., and its chairman until his retirement in 1992. Mr. Seaman is currently chairman of DOX Investments Inc. He also serves on the boards of several Canadian companies including Trimac Limited and The Calgary Flames Hockey Club Ltd. Mr. Seaman resides in Calgary.*

CORPORATE GOVERNANCE

Over the last two years, NOVA has significantly strengthened the way its board of directors governs the business.

First, the role of company president and chief executive officer was separated from the role of the chairman of the board of directors. The term served by each director was changed to one year from three-year, staggered terms. Four committees of the board were given revised and strengthened mandates to improve the board's ability to oversee the Corporation.

► The mandate of the Audit and Finance Committee was expanded. The committee members oversee NOVA's financial planning, reporting and audits, and administer trust funds associated with NOVA's pension and savings plans. All the individuals appointed to this committee are 'outside' directors (not employed by NOVA or its related businesses).

► A Human Resources Committee reviews candidates, compensation and terms of employment for senior management positions. The committee also administers the company's pension and savings plans (except for its trust fund). Only outside directors are appointed to this committee.

► A Nominating Committee oversees the composition of the board and proposes new directors for consideration by the board.

► A Public Policy, Risk & Environment Committee was created to strengthen the board's stewardship in the areas of environment, health and safety performance and to give input on NOVA's performance as a corporate citizen. The committee is also responsible for overseeing corporate contributions, government relations and relations with special interest groups.

With this framework, the ability of the board to conduct its governance has been raised to a level comparable with the best in corporate North America. The membership of each board committee follows:

AUDIT & FINANCE

Ronald B. Coleman, William H. Comrie, J. Joseph Healy, Harley N. Hotchkiss (Chair), Harold P. Milavsky, Janice G. Rennie.

HUMAN RESOURCES

F. Peter Boer, Sir J. Graham Day, The Hon. Willard Z. Estey, Richard F. Haskayne (Chair), Harley N. Hotchkiss, W. Norman Kissick, Nicholas Pappas, Cedric E. Ritchie, Daryl K. Seaman.

NOMINATING

The Hon. John B. Aird, Sir J. Graham Day, The Hon. Willard Z. Estey, Richard F. Haskayne (Chair), J.E. Newall, Robert L. Pierce, Daryl K. Seaman.

PUBLIC POLICY, RISK & ENVIRONMENT

The Hon. John B. Aird, F. Peter Boer, Ronald B. Coleman, William H. Comrie, J. Joseph Healy, W. Norman Kissick, Harold P. Milavsky (Chair), J.E. Newall, Nicholas Pappas, Robert L. Pierce, Janice G. Rennie, Cedric E. Ritchie.

Corporate Strategy and Policy Committee

The Corporate Strategy and Policy Committee is responsible for advising the chief executive officer on the short- and long-term direction of the Corporation. The committee's mandate includes the development of corporate strategy, review and approval of business plans, and monitoring the environment in which the company conducts its business. The committee is also responsible for approving annual budgets as well as reviewing and approving major acquisitions, divestments, investments and changes in business direction. The members of the committee are:

J.E. (Ted) Newall
Chair of the Committee; NOVA President and Chief Executive Officer

Robert L. Pierce
Vice Chair of the Committee; NOVA Senior Vice President; Chairman and Chief Executive Officer, Foothills Pipe Lines Ltd.; Chairman, Pan-Alberta Gas Ltd.

Pierre Choquette
NOVA Senior Vice President; Executive Vice President, Novacor Chemicals Ltd.

John E. Feick
NOVA Senior Vice President; President and Chief Operating Officer, Novacor Chemicals Ltd.

C. Kent Jespersen
NOVA Senior Vice President

Donald G. Olafson
NOVA Senior Vice President; President, Novacorp International Consulting Inc.

Bruce W. Simpson
NOVA Senior Vice President; President and Chief Operating Officer, Alberta Gas Transmission Division

Richard C. Milner
NOVA Vice President and Treasurer

Jack S. Mustoe
NOVA Vice President, General Counsel and Corporate Secretary

Brian F. Olson
NOVA Vice President, Human Resources

A. Terry Poole
NOVA Vice President and Controller

Corporate Directory

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Telex 038-21503

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Telex 038-21503

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Fax (403) 269-7410

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Fax (403) 290-6090
Telex 038-21503

Novalta Resources Inc.
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Calgary, Alberta T2P 1H5
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Fax (403) 261-5461

Affiliated Companies

Foothills Pipe Lines Ltd.
3100 – 707 Eighth Avenue S.W.
Calgary, Alberta T2P 3W8
(403) 294-4111
Fax (403) 294-4174

Pan-Alberta Gas Ltd.
500 – 707 Eighth Avenue S.W.
Calgary, Alberta T2P 3V3
(403) 234-6600
Fax (403) 234-6509

TQM Pipeline Partnership
Suite 2220
1 Place Ville Marie
Montréal, Québec H3B 3M4
(514) 874-8800
Fax (514) 874-8888

Other Information

Solicitors

Howard, Mackie
Calgary, Alberta

Osler, Hoskin & Harcourt
Toronto, Ontario

Orrick, Herrington & Sutcliffe
San Francisco, California

Auditors

Ernst & Young
Calgary, Alberta

Share Registration

Common shares are transferable at the Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal, Halifax and London, England offices of The R-M Trust Company and at the office of Mellon Securities Trust Company, New York, N.Y., U.S.A. NOVA's preferred shares and 1996 warrants are transferable at the offices of Montreal Trust Company in Vancouver, Calgary, Edmonton, Regina, Winnipeg, Toronto, Montreal and Halifax.

PRODUCTION NOTES:

To minimize environmental impact, this annual report was printed using vegetable-based inks, a wax-based adhesive and a water-based cover coating. No varnishes were used. Trim waste has been minimized.

The Canadian-manufactured uncoated paper used in the financial section is made of 100% post-consumer waste.

The Canadian-manufactured white matte coated paper used in the front section and the cover is 50% recycled with a 10% post-consumer waste content. The matte coated paper was used to maximize quality and clarity for color and photos.

The entire annual report is 100% recyclable where facilities exist.

The number of reports printed was closely audited to avoid surplus copies.

RESEARCH, WRITING, DESIGN AND PRODUCTION:
NOVA - Public Affairs
- Financial Reporting
- Creative Services

PRINCIPAL PHOTOGRAPHER:
Brian Harder

PRINTING:
Arthurs-Jones Lithographing Ltd.

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RAPPORTS ANNUELS EN FRANÇAIS :
Veuillez vous adresser au secrétaire de la Société si vous désirez recevoir un exemplaire de la version française de ce rapport.

RECYCLING AT WORK

PRINTED IN CANADA